

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2012

Town of Smithfield, Virginia



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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Town of Smithfield, Virginia

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
June 30, 2012**

Prepared by:

Ellen Minga, Town Treasurer

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***Town of Smithfield, Virginia
Comprehensive Annual Financial Report***

Table of Contents

	Exhibits/ Tables	Page
<i>Introductory Section</i>		
Table of Contents		<i>i-ii</i>
Town Council and Executive Officers		<i>iii</i>
<i>Financial Section</i>		
Report of Independent Auditors		1 - 2
Management's Discussion and Analysis		3 - 16
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Assets	A-1	17
Statement of Activities	A-2	18
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet - Governmental Funds	A-3	19
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	A-3	20
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds	A-4	21
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances to the Statement of Activities	A-4	22
Proprietary Funds:		
Statement of Net Assets - Proprietary Funds	A-5	23
Statement of Revenue, Expenses and Changes in Fund Net Assets - Proprietary Funds	A-6	24
Statement of Cash Flows - Proprietary Funds	A-7	25
Notes to Basic Financial Statements		26 - 46
Required Supplementary Information:		
Schedule of Revenue and Expenditures - Budget and Actual - General Fund	B-1	47 - 49
Schedule of Revenue and Expenditures - Budget and Actual - Special Revenue Fund	B-2	50
Schedule of Funding Progress for Defined Benefit Pension Plan	B-3	51
Notes to Required Supplementary Information	B-4	52
<i>Compliance Section</i>		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		53 - 54
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133		55 - 56
Report of Independent Auditors on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts and Grants		57 - 58

Town of Smithfield, Virginia
Comprehensive Annual Financial Report

Table of Contents

	Exhibits/ Tables	Page
Schedule of Expenditures of Federal Awards	B-5	59
Notes to Schedule of Expenditures of Federal Awards	B-6	60
Schedule of Findings and Questioned Costs	B-7	61 - 62
 Statistical Section		
Net Assets by Component - Last Nine Years	C-1	63
Change in Net Assets - Last Nine Years	C-2	64 - 65
Fund Balances - Governmental Funds - Last Nine Years	C-3	66
General Governmental Expenditures by Function	C-4	67
General Governmental Revenue by Source	C-5	68
Property Tax Rates	C-6	69
Principal Taxpayers - Real Estate and Personal Property	C-7	70
Property Tax Levies and Collections	C-8	71
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	C-9	72
Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures	C-10	73
Computation of Legal Debt Margin	C-11	74
Full-Time Equivalent City Government Employees by Function/Program	C-12	75
Operating Indicators by Function/Program	C-13	76
Capital Asset Statistics by Function/Program	C-14	77

Town of Smithfield, Virginia

Town Council and Executive Officers

Mayor

David M. Hare

Town Clerk

Lesley M. Greer

Vice-Mayor

T. Carter Williams

Town Manager

Peter M. Stephenson

Council Members

Constance H. Chapman
Dr. P. Milton Cook, Jr.
Andrew C. Gregory
John L. Graham
Denise N. Tynes

Treasurer

Ellen D. Minga

Chief of Police

Steven G. Bowman

Committees

Finance

John L. Graham (CH)
Andrew C. Gregory
Dr. P. Milton Cook, Jr.

Public Works

Constance H. Chapman (CH)
Dr. P. Milton Cook, Jr.
Denise N. Tynes

Water and Sewer

Andrew C. Gregory (CH)
John L. Graham
T. Carter Williams

Public Buildings and Welfare

Dr. P. Milton Cook, Jr. (CH)
T. Carter Williams
John L. Graham

Fire and Rescue

T. Carter Williams (CH)
Denise N. Tynes
Constance H. Chapman

Public Safety - Police

Denise N. Tynes (CH)
Andrew C. Gregory
Constance H. Chapman

Isle of Wight Economic Development Commission

Dr. P. Milton Cook, Jr.

Isle of Wight Tourism Bureau

Andrew C. Gregory
T. Carter Williams

Intergovernmental

David H. Hare
T. Carter Williams

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Town of Smithfield, Virginia

Financial Section

June 30, 2012

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Report of Independent Auditors

Honorable Mayor and Members of Town Council
Town of Smithfield, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the *Town of Smithfield, Virginia* for the year ended June 30, 2012, which collectively comprise the *Town of Smithfield, Virginia's* basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *Town of Smithfield, Virginia's* management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the *Town of Smithfield, Virginia* as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012, on our consideration of the *Town of Smithfield, Virginia's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 16 and 47 through 52, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *Town of Smithfield, Virginia*'s financial statements as a whole. The introductory, supplementary information and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section, supplementary information and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 31, 2012

***Town of Smithfield, Virginia
Management's Discussion and Analysis
Fiscal Year July 1, 2011 - June 30, 2012***

The following discussion provides an overview and analysis of the Town of Smithfield, Virginia's (Town's) financial activities for the fiscal year ended June 30, 2012. This information should be read in conjunction with the Town's audited financial statements as reported herein.

FINANCIAL HIGHLIGHTS

- The net assets of the Town increased by \$1,227,350 which represents a 3 % increase over FY2011 (total net assets-government-wide). This change is indicative of the progress the Town has made in its community development and beautification efforts while maintaining its fiscal integrity.
- As of June 30, 2012, the Town had purchased all 16 designated properties for Phase I Multi-Year 2 (MY2) of the Pinewood Heights Redevelopment Project. Demolition was completed for all but 4 units that were delayed until July 2012. The Town received remaining grant funds of \$71,000 from the Virginia Department of Housing and Community Development.
- The Smithfield Police Department purchased a mobile command vehicle that was fully funded by a Department of Homeland Security Port Authority Grant.
- The Town completed construction of a reverse osmosis plant that became operational in the fall of 2012 in order to reduce the fluoride levels in the Town's water.
- Substantial progress was made on streetscape enhancement construction on South Church Street with 82% of project costs billed through June 30, 2012.
- Engineering and field work continued on the Regional Sewer Consent Order. The project has been divided into tasks and 77% of remaining tasks with cumulative costs of \$796,005 were completed in FY2012.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the Town's basic financial statements. These basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The Town is required to comply with the Governmental Accounting Standards Board (GASB) Statement No. 34. The implementation of GASB 34 changed the accounting and presentation of the financial statements to include government-wide financial statements that report both long-term and short-term information about the Town's overall financial standing.

Government-wide Financial Statements

The *Government-Wide Financial Statements* provide an overview of the Town's financial position as a whole in a manner similar to private-sector businesses. Government-wide financial reporting consists of two statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets presents information on the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Other factors, such as a change in property tax base and infrastructure needs resulting from development or annexation, should also be included in a comprehensive assessment of the Town's position.

The Statement of Activities presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Statement of Net Assets and the Statement of Activities include the following:

- **Governmental activities** - The governmental activities of the Town include general government, public safety, public works, public buildings, community development, and recreation and cultural. Most of these activities are primarily financed by property taxes, other local taxes, and licenses and permit fees.
- **Business-type activities** - The business-type activities of the Town include a Water Fund and a Sewer Fund. These funds are supported by charges for services based on use. The current rate structure also includes a fixed bi-monthly fee per meter to offset the annual debt service payments incurred to fund a new water treatment plant.

Fund Financial Statements

Fund accounting is used to maintain control over resources that have been segregated for specific functions. Governments use fund accounting to ensure and demonstrate finance-related legal compliance. The funds of the Town are divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on the balances of spendable resources available at fiscal year end. Such information may be useful in evaluating a government's near-term financing requirements.

Because the governmental funds statements present a more current focus than the information in the government-wide financial statements, a comparison between the two statements is a valuable tool for readers to understand the possible long-term impact of the government's recent financing decisions. Reconciliations of the governmental funds balance sheet and statement of revenues, expenditures, and changes are shown in Exhibits A-3 and A-4 on pages 20 and 22 to compare governmental funds to governmental activities.

Proprietary Funds - The Town maintains only one type of proprietary fund, which is the enterprise fund. Enterprise funds provide both long-term and short-term information on business type activities in the government-wide financial statements. They show similar, but more detailed, information on the fund financial statements. The Town uses enterprise funds to account for its water and sewer operations.

Notes to the Financial Statements - The notes provide additional information and explanations that are essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found at the end of the basic financial statements section of this report.

Supplementary Information - In addition to the basic financial statements and accompanying notes, this report also contains schedules of budget comparisons, property assessments and tax rates, debt ratios, and other supporting and statistical information found on pages 47 through 52 and pages 63 through 77.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

	Governmental Activities		Business-Type Activities		Total	
	FY2012	FY2011	FY2012	FY2011	FY2012	FY2011
Current and other assets	\$ 4,782,223	\$ 5,177,073	\$ 4,454,646	\$ 5,741,595	\$ 9,236,869	\$ 10,918,668
Capital assets	20,790,454	17,494,316	16,939,008	16,449,244	37,729,462	33,943,560
Total assets	\$ 25,572,677	\$ 22,671,389	\$ 21,393,654	\$ 22,190,839	\$ 46,966,331	\$ 44,862,228
Current and other liabilities	\$ 1,977,367	\$ 909,622	\$ 913,942	\$ 1,520,443	\$ 2,891,309	\$ 2,430,065
Long-term liabilities	755,362	794,303	4,780,762	4,326,312	5,536,124	5,120,615
Total liabilities	2,732,729	1,703,925	5,694,704	5,846,755	8,427,433	7,550,680
Net assets						
Invested in capital assets -						
net of related debt	20,169,774	16,855,409	12,256,185	12,153,344	32,425,959	29,008,753
Restricted	-	-	2,233,571	1,440,224	2,233,571	1,440,224
Unrestricted	2,670,174	4,112,055	1,209,194	2,750,516	3,879,368	6,862,571
Total net assets	22,839,948	20,967,464	15,698,950	16,344,084	38,538,898	37,311,548
Total liabilities and net assets	\$ 25,572,677	\$ 22,671,389	\$ 21,393,654	\$ 22,190,839	\$ 46,966,331	\$ 44,862,228

The combined net assets for the Town total \$38,538,898, an increase of 3% over FY2011. The largest portion of these net assets (84%) represent investments in capital assets, net of related debt used to finance the assets. These capital assets include land, buildings, machinery, and equipment. They are used to provide services to citizens, thus, they are not available for future spending. The increase in FY2012 resulted largely from acquisition of property in the Pinewood Heights neighborhood, progress on the South Church Street Streetscape Project, and completion of the long planned reverse osmosis (RO) plant. Restricted assets of \$2,233,571 in the business-type activities make up 6% of total net assets, a 2% increase from FY2011. These restricted assets are made up of water debt service escrow funds, sewer compliance escrow funds, and water and sewer development escrow funds. The debt service fee has been in place since FY2005 to fund the debt obligation relating to the Town's newest water storage tank finished in FY2011 and the RO plant that was completed in FY2012. The sewer compliance fee was adopted on August 4, 2009 to fund expenses resulting from the regional sanitary sewer consent order. Water and sewer development escrow funds are made up of pro-rata share fees from new development and are used only to fund capital construction or repairs resulting from growth. Unrestricted assets of \$3,879,368 make up 10% of total net assets and decreased 8% primarily because of reclassification of development escrow funds from unrestricted to restricted. Unrestricted assets are made up of committed, assigned, and unassigned fund balances. Included in this category for governmental activities are cash balances in the highway fund that are used for state approved highway maintenance, beautification funds, contributions for streetscape improvements, escrow accounts for special projects, and estate funds directly bequeathed to the Town's police department. Unrestricted assets also include council assigned assets such as capital escrow accounts for water and sewer funds. Capital escrow funds are made up of availability fees collected prior to construction and may be used to repair or replace existing infrastructure as well as offset capital expenses related to new growth when needed. The remaining unassigned funds may be used to meet the Town's ongoing financial obligations.

Governmental Activities. The following table shows a detailed summary of the revenues and expenses for governmental and business-type activities for 2012 as compared to 2011:

	Governmental Activities		Business-Type Activities		Total	
	FY2012	FY2011	FY2012	FY2011	FY2012	FY2011
Revenue						
Program revenue:						
Charges for services	\$ 702,679	\$ 641,792	\$ 1,542,305	\$ 1,544,183	\$ 2,244,984	\$ 215,975
Operating grants and contributions	1,394,579	1,287,831	-	-	1,394,579	1,287,831
Capital grants and contributions	2,281,395	1,202,583	19,686	18,737	2,301,081	1,221,320
General revenue:						
Real estate and personal property taxes	2,602,423	2,670,808	-	-	2,602,423	2,670,808
Other local taxes	2,152,082	2,129,364	-	-	2,152,082	2,129,364
Insurance reimbursements	34,018	9,219	-	-	34,018	9,219
Reimbursements from other agencies	-	7,637	-	-	-	7,637
Miscellaneous	19,269	4,796	3,091	67,882	22,360	72,678
Availability fees for capital expenditures	-	-	100,900	153,760	100,900	153,760
Restricted fees for capital expenditures	-	-	898,516	891,417	898,516	891,417
Revenue from use of money and property	306,049	46,373	14,449	17,761	320,498	64,133
Total revenue	9,492,494	8,000,403	2,578,947	2,693,740	12,071,441	10,694,143
Expenses						
General government	952,950	931,295	-	-	952,950	931,295
Public buildings	388,851	186,364	-	-	388,851	186,364
Public safety	2,357,991	2,453,686	-	-	2,357,991	2,453,686
Public works	1,820,850	1,627,356	-	-	1,820,850	1,627,356
Cultural and recreation	740,853	806,902	-	-	740,853	806,902
Community development	458,015	561,600	-	-	458,015	561,600
Sewer	-	-	1,594,505	1,078,458	1,594,505	1,078,458
Water	-	-	1,629,576	895,899	1,629,576	895,899
Total expenses	6,719,510	6,567,203	3,224,081	1,974,357	9,943,591	8,541,560
Change in net assets before transfers and loss on dispositions	2,772,984	1,433,200	(645,134)	719,383	2,127,850	2,152,583
Loss on disposition of capital assets	(900,500)	(355,905)	-	-	(900,500)	(355,905)
Increase in net assets	1,872,484	1,077,295	(645,134)	719,383	1,227,350	1,796,678
Net assets - beginning of year	20,967,464	19,890,169	16,344,084	15,624,701	37,311,548	35,514,870
Net assets - end of year	\$22,839,948	\$20,967,464	\$15,698,950	\$16,344,084	\$38,538,898	\$37,311,548

Program revenues are comprised of charges for services, operating grants and contributions, and capital grants and contributions. Charges for governmental activities services include licenses, permits, and privilege fees as well as fines, forfeitures, and rentals from the Town's Smithfield Center. These charges for services increased \$60,887 from FY2011, largely due to increases in business license tax of \$46,146 and Smithfield Center rentals of \$31,772 which offset a decrease in fines and forfeitures of \$12,250 and various other decreases. Of the \$702,679 collected for FY2012, \$331,426 (47%) was received from business license tax which was a 16% increase from FY2011 receipts of \$285,280. This significant increase was attributed to collections totaling \$30,545 in delinquent business licenses with associated penalty and interest whereas in FY2011 \$16,558 was refunded for license overpayments. Smithfield Center rentals of \$156,616 made up 22% of charges for services in FY2012. During FY2011, the interior of the Smithfield Center was remodeled to give it a fresh look and increase its appeal as a venue of choice. Consequently, in FY2012 rentals at the Center exceeded \$150,000 for the first time since the facility opened in December 2000. Vehicle license taxes (19%) totaled \$132,373 which was a decrease of \$6,680 from prior year because of delinquent collections of \$7,364 compared to \$13,789 in FY2011. While available operating grants vary from year to year, the Town's annual state highway fund has remained a reliable and much needed source of revenue increasing from \$951,305 in FY2011 to \$986,577 in FY2012. The Town also received annual 599 funds in the amount of \$161,532 from the state to supplement the cost of law enforcement. These funds were reduced from \$167,412 in FY2011. The Police Department was awarded a grant of \$195,000 through the Department of Homeland Security for a mobile command unit. The unit can be used for extended calls, emergency situations, or special operations and allows the department to have full capabilities on a mobile platform. The grant was paid to Isle of Wight County and passed through to the Town as a contribution. The largest change in program revenues occurred in capital grants and contributions which increased almost 90% from \$1,202,583 in FY2011 to \$2,281,395 in FY2012 largely due to the progression of the South Church Street Streetscape Enhancement Project. In FY2012, the Town utilized \$1,106,301 in state and federal funding for the project as well as \$225,000 in private contributions. The Town also received \$71,000 in federal grant reimbursements as well as a cash contribution of \$165,041 from Isle of Wight County to finish off Phase I of the Pinewood Heights Redevelopment Project. In FY2011, \$684,120 was received in federal grants and contributions from Isle of Wight County for the Pinewood Project and \$504,511 in federal and state funds for progress billings on South Church Street.

The largest revenue source for the Town is general property taxes.

	FY2012	FY2011
Real estate tax revenue	\$ 1,751,150	\$ 1,721,193
Public Service corporation property taxes	28,872	28,086
Personal property taxes	785,497	883,619
Penalties and interest	36,904	37,910
Total	\$ 2,602,423	\$ 2,670,808

Tax assessments for the Town are received from the Isle of Wight County Commissioner of Revenue. Real estate and personal property assessments for FY2012 totaled \$1,094,483,700 and \$183,614,286 respectively, excluding any subsequent supplements and abatements, compared to \$1,090,457,100 and \$217,550,411 for FY2011. FY2012 was not a reassessment year; however, real estate revenue increased by 2% as some construction did occur in the town during the fiscal year. Personal property decreased by 11% largely due a reduction in machinery and tools assessments as Smithfield Foods closed one of its local plants.

Other local taxes increased only 1% for the year and include transient occupancy taxes, sales taxes, cigarette taxes, meals taxes, franchise taxes, communications taxes, and consumers' utility taxes. Transient occupancy tax increased \$11,631 (9%) as collections for the first two quarters of the year totaled \$24,784 more than prior year which offset a \$12,906 decrease in the third quarter and a flat fourth quarter. Sales tax rose by \$35,031 (13%) over prior year which was encouraging as FY2010 reflected a significant decrease (\$21,025) and FY2011 tracked much the same as FY2010 with an increase of only \$785. Cigarette taxes totaled \$143,582 with an increase of \$10,884 (8%) over FY2011. This tax typically fluctuates from year to year since revenues are recognized by sales of cigarette tax stamps to wholesalers who buy in bulk. Meals taxes of \$966,570 remained strong although virtually unchanged from prior year collections of \$964,514. Bank franchise taxes dropped \$12,186 as the Town's share in net capital value for three of the five banking institutions located within the Town limits decreased from FY2011. Communications taxes and consumers' utility taxes decreased after remaining relatively flat for the last three years. Communications taxes decreased by \$5,009 and utility taxes decreased by \$20,217. Communications taxes are distributed by the Commonwealth of Virginia and are difficult to project because of numerous adjustments made by the Commonwealth before the remaining funds are allocated to qualifying localities. Utility taxes are imposed and levied monthly on each purchase of natural gas or electricity delivered to consumers and are based on consumption. Mild winters or hot summers can significantly impact this revenue item.

Insurance reimbursements of \$34,018 were substantially higher than the \$9,219 collected in FY2011. A new police car was totaled during the year resulting in reimbursement of \$17,675 that was used towards the purchase of a replacement vehicle. Also, the Town received \$10,532 for damages occurring from Hurricane Irene in August 2011.

Governmental activities miscellaneous revenues for FY2012 totaled \$19,269 and included cash proffer revenues, electricity reimbursement revenues from Basses' Choice (a tenant of the Town), return check charges, accident report fees, and various vendor refunds. The Town collected cash proffers of \$3,000 in FY2012 as compared to \$-0- for FY2011. The Town also received \$3,128 in refunds from vendors for returned merchandise or adjustments on account.

Governmental activities revenue from use of money and property includes interest income, lease income, rental income, and sale of land, equipment, or vehicles. Revenues in this category increased \$259,676 which is a substantial change from prior year. The increase can be attributed to the sale of Town property totaling \$259,907. Interest revenue decreased \$8,917 in FY2012 as interest rates remained low and cash reserves were used to fund large capital projects prior to grant reimbursement. One of these projects, the South Church Street Streetscape Enhancement Project, was started in FY2011 and is scheduled for completion in January 2013. There are numerous funding sources for this project making the reimbursement process more complicated and less timely. Sale of equipment and vehicles totaled \$17,220 for the year compared to \$3,401 in FY2011. Three police vehicles and two generators were included in the sales for a combined total of \$11,905. The Town uses an online service provider to advertise and sell surplus items.

Total expenditures for FY2012 governmental activities totaled \$6,719,510 compared to \$6,567,203 for FY2011, an increase of \$152,307 (2%). These expenses are categorized as general government, public buildings, public safety, public works, cultural and recreational, and community development. Public safety (police and fire) and public works (including highway maintenance) are the largest cost centers and accounted for 35% and 37% of total costs respectively. Public safety decreased notably by \$95,695 from the prior year. The Police Department experienced many staffing changes in the middle of the fiscal year after the former police chief was elected Isle of Wight County Sheriff as of January 1, 2012. As a result, five certified officers and two clerical employees left the Town to join the Sheriff's Department at the same time. The Town's Police Captain served as interim chief until a new chief was hired at the end of March 2012. Interviews were conducted to replace the officers and clerks who left but the hiring process took time. Most of the officers hired were younger and less experienced than their predecessors which reduced gross salaries. One of the first tasks of the new chief was to evaluate personnel for promotions to re-establish supervisory positions as defined by the department's organizational chart. The gaps in

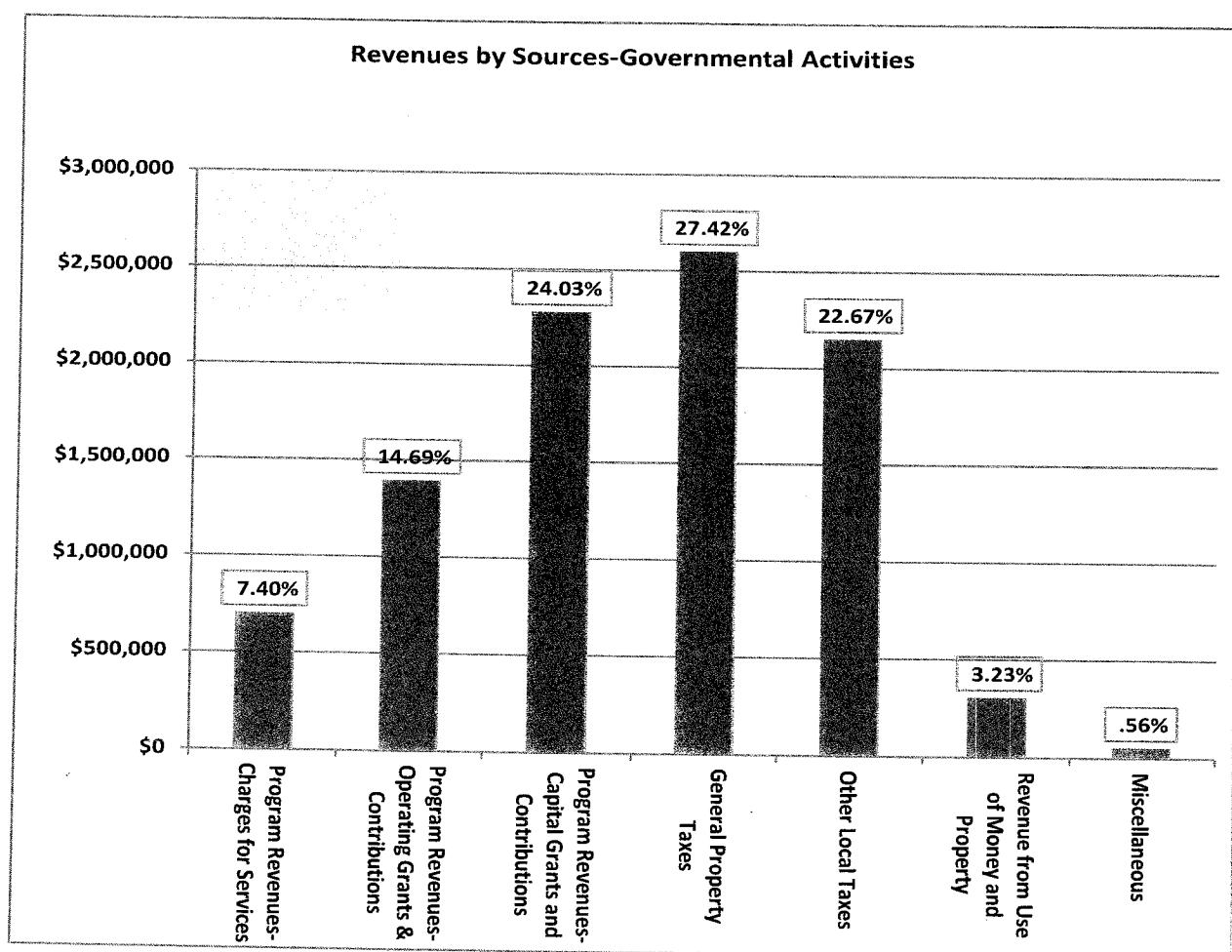
staffing accounted for significant savings in salaries and benefits for the year. Public Works also ended the fiscal year with a \$193,494 increase in total expenses from \$1,627,356 in FY2011 to \$1,820,850 in FY2012. There were increases in labor and benefit costs (\$117,298) and additional expenses of \$73,962 for damages resulting from Hurricane Irene. The Town applied to FEMA for relief assistance, but although approved, no funding was received by fiscal year end. Labor and benefit increases resulted from the addition of new personnel and reallocation of time charged for many of the public works employees. General government expenses rose by \$21,655 with the largest increase of \$12,152 in the Treasurer's office for labor and benefits related to a new financial analyst position that was filled in April 2012. Public buildings reflected an increase of \$202,487 which was substantial for a department that usually has minimal changes. The increase was related to the renovations of the new Town Manager and Police Department office buildings that were completed in FY2012. Cultural and recreation and Community development both reflected decreases with Cultural and recreation dropping \$66,049 and Community development \$103,585. The primary factor in the decrease in Cultural and recreation was repairs and maintenance for the Windsor Castle Park which dropped from \$103,299 in FY2011 to \$28,408 in FY2012. Community development activity decreased due to an unanticipated refund from Isle of Wight County for tourism cost sharing of \$25,517 and completion of Phase I MY2 of the Pinewood Heights Relocation Project. In FY2012 only 5 properties and 4 relocations remained to finish off the Town's obligation for Phase I.

In FY2012, the Town of Smithfield realized a loss on disposition of capital assets totaling \$900,500. Most of this loss is related to the Pinewood Heights Redevelopment Project. As of June 30, 2012, the Town had purchased 16 properties from Pinewood Heights residents as required for Phase I MY2. Fourteen units were demolished during FY2012 (including two from MY1), so the values of the buildings located on those properties were retired from the Town's capital assets. This activity was similar to that in FY2010 and FY2011 during which six units acquired in Pinewood Heights were likewise demolished each year and removed from the Town's asset list.

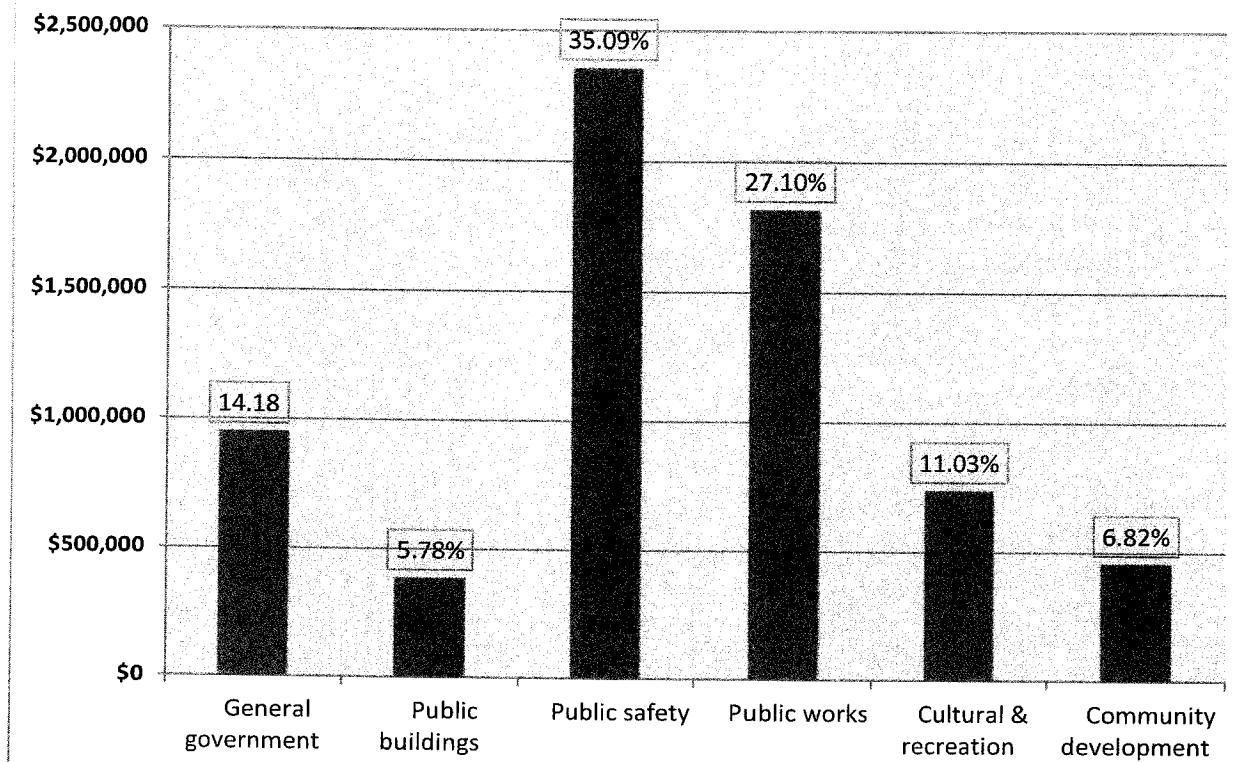
Business-Type Activities. The business-type activities show a decrease in net assets of \$645,134 for FY2012 compared to an increase of \$719,383 in FY2011. Program revenues include charges for services that decreased by \$1,878 and capital grants and contributions that increased minimally by \$949. Included in charges for services are utility charges, bulk water sales, connection fees, and application fees. Water and sewer consumption dropped significantly compared to FY2011 as weather conditions were favorable and consumers became more conservative in anticipation of proposed rate increases. Rate increases adopted as of January 1, 2012, minimized the impact of decreased consumption and kept the service charges level with prior year. Connection fees, which are driven by growth, also decreased from \$48,800 in FY2011 to \$31,530 in FY2012. Only nine 5/8" residential meters were installed in FY2012 as compared to sixteen in the previous year. Included in general revenues for water and sewer are miscellaneous revenues, availability fees, restricted fees, and revenue from use of money and property. In FY2011, miscellaneous revenues of \$67,882 reflected an inventory adjustment made when Public Works automated its work order system and reevaluated items included in its annual count. In FY2012, miscellaneous revenues are made up of small sales of scrap materials. Like connection fees, availability fees are tied directly to growth. Availability fees are collected at the same time as connection fees, and the charge is based on meter size. In FY2012, availability fees dropped to \$100,900 compared to \$153,760 in FY2011 as 9 fewer residential meters were installed. Availability fees are deposited into the Capital Escrow Funds and are used for capital maintenance on existing infrastructure and may be used to finance new infrastructure if needed. Restricted fees for capital expenditures include sewer compliance fees, debt service fees, and pro-rata share fees which are also deposited into escrow accounts and are not used to fund operating expenses. The Sewer Compliance Escrow Fund was established to track collections of the sewer compliance fee (\$24.14 bi-monthly) and subsequent disbursements for the regional Sanitary Sewer Consent Order. Since the sewer compliance fee is added equally to each utility account, 2012 collections of \$487,725 are consistent with prior year and should remain that way for future years barring any dramatic change in growth and development. Likewise, debt service fees of \$19.30 per utility account are also collected bi-monthly and deposited into the Water Debt Service Fund to be used exclusively to pay down debt borrowed for construction of the Battery Park Road water storage tank and the newly completed water treatment plant. Debt service fees are also applied equally to each utility account and therefore do not normally fluctuate greatly. Collections for FY2012 totaled \$402,791 compared to \$403,716 in FY2011. Like connection fees and availability fees, pro-rata share fees are growth related. They are deposited

into a development escrow account and can only be used for capital additions or repairs resulting from growth. These fees are paid by developers at the time that plats are recorded and are assessed at \$800 for water and \$800 for sewer per lot. Because of the decline in construction over the past few years, the Town had not received pro-rata share fees since FY2007. In FY2012, the Town received \$4,000 each in sewer and water pro-rata share fees. Revenue from the use of money and property are made up of interest income and decreased \$3,312 in FY2012. This decrease was caused by sustained low interest earnings on all cash accounts and utilization of escrow funds for capital projects. Expenses increased \$1,249,724 from FY2011 with \$516,047 attributable to sewer and \$733,677 attributable to water. The increase for sewer was caused by an increase in depreciation, a non-operating expense, due to completion of consent order related tasks with a cumulative cost of \$796,005 as well as a change in depreciable lives related to renovations of existing pump stations. Water likewise experienced a substantial increase in depreciation (\$327,529) with the completion of the water treatment (RO) plant that was added to fixed assets at a total project cost of \$4,972,449. The depreciable lives of several water assets were also changed to reflect a shorter lifespan than was previously adopted. The remaining increase in water expenses resulted from the operating costs of the RO plant (\$308,298) once it became operational and an increase in supplies expense (\$90,680) due to the use of inventory items.

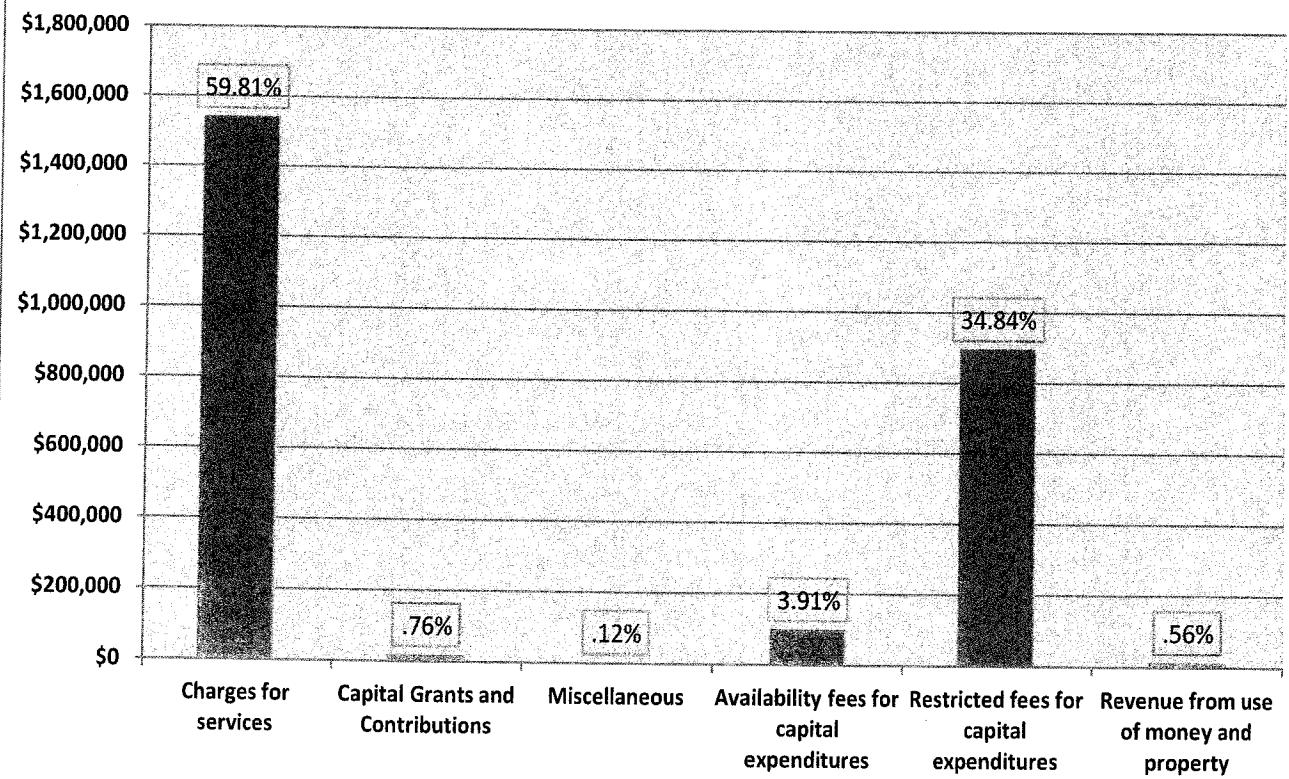
The Town adopted new utility rates as of January 1, 2012. The Town's utility rate structure is based on "usage only" with a charge of \$3.50 per 1,000 gallons for sewer and \$4.85 per 1,000 gallons for water for in-town customers. The prior rates were \$2.90 per 1,000 gallons for sewer and \$2.55 per 1,000 gallons for water. The rate structure also includes fixed costs on each bi-monthly bill of \$24.14 and \$19.30 per account to address sewer compliance and water debt service expenses. During FY2012, water consumption decreased approximately 22% from FY2011 which would have been a serious blow to revenues without the increase in rates. Accounts receivable balances remained high for FY2012 as in FY2011 although cut-offs were done monthly to address delinquencies.



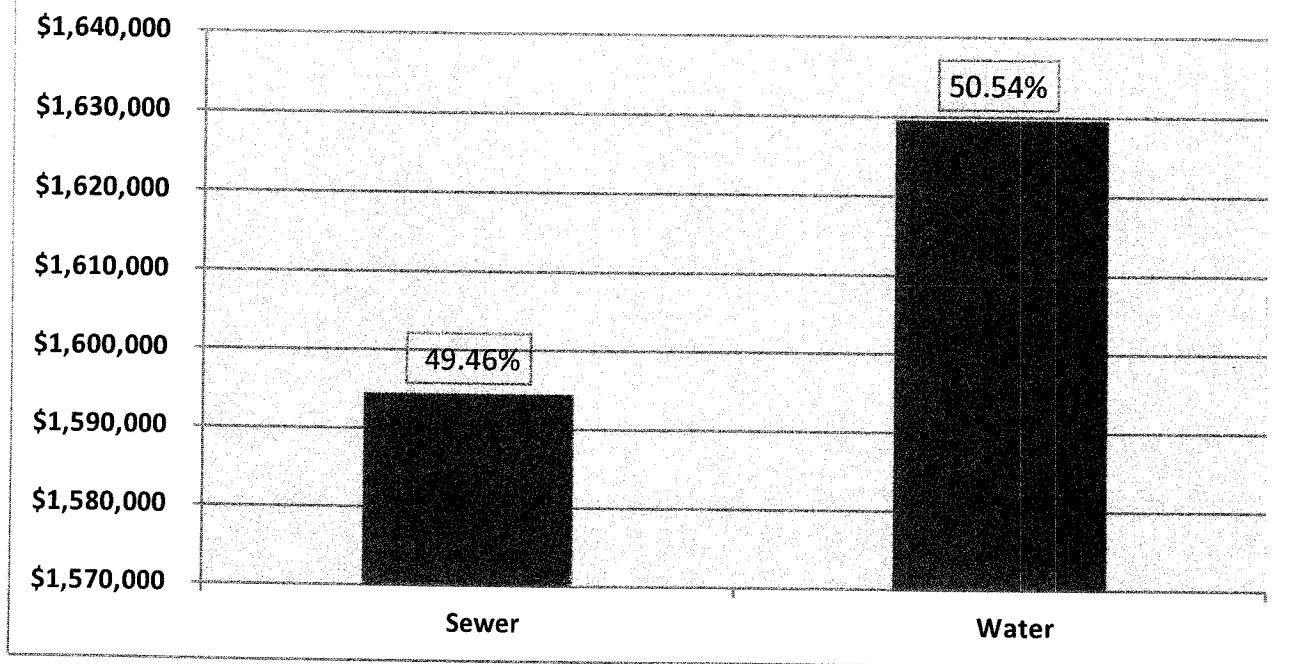
Expenses by Governmental Activities



Revenues by Sources-Business Activities



Expenses-Business Activities



FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The Town's governmental funds relay information on current sources and uses of spendable resources, as well as on the balances of spendable resources available at fiscal year end. The fund balances of total governmental funds equaled \$2,692,281 for FY2012, of which \$621,781 are committed, \$3,797,505 are assigned, and (\$1,727,005) are unassigned. This was a 35% decrease from FY2011 which had a fund balance of \$4,158,176.

General Fund. The general fund is the Town's primary operating fund for all governmental activities. Total fund balances for FY2012 equal \$2,691,180 and are made up of committed fund balances of \$620,680, assigned fund balances of \$3,797,505, and unassigned fund balances of (\$1,727,005). The unassigned fund balance was \$2,189,060 in FY2011. The negative unassigned balances for FY2012 resulted from use of cash reserves to fund large progress payments on the South Church Street Streetscape Project that was not yet completed at year end.

Special Revenues Fund. The special revenues fund (highway fund) is used to track receipts from the state that are specifically designated for road maintenance and to identify allowable expenses that may be charged against those state revenue. Committed fund balances for FY2012 totaled (\$7,007) which is a significant decrease from \$147,536 in FY2011. The balance of committed funds for special revenues should be small because ideally grant funds from the state should be expensed in the same year they are allocated. The Town did not spend all of its 2011 highway grant funds, however, and such funds were carried forward and applied to maintenance projects in FY2012.

Capital Projects Fund. The capital projects fund for FY2004 specifically detailed grant activity for a community development block grant in the Rising Star community of the Town. Financial activity for this grant began in FY2000 and was completed in FY2004, but the Town continued to collect program revenue from residents who benefited from the Rising Star rehabilitation through FY2007. The balance of program revenues collected \$8,108 remains in the Town's capital projects fund until a decision is made on its disposition.

Proprietary Funds. The Town's only proprietary funds are its water and sewer funds which provide the same type of information included in the government-wide financial statements but in more detail. As of 2012, the total assets of the proprietary funds totaled \$21,393,654 which is a 4% decrease over FY2011 and reflects the outlay of cash and investments used for capital projects while continuing to pay down debt. Restricted assets of \$2,233,571 represent the cash balances of water and sewer development escrow funds as well as the balances in the sewer compliance escrow fund and the debt service escrow fund. Unrestricted funds decreased from \$2,750,516 in FY2011 to \$1,209,194 in FY2012 as funding was used for progress payments on the sanitary sewer consent order as well as construction costs for the water reverse osmosis plant and the waterline replacement.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's FY2012 budget was adopted by Town Council at a special meeting held on June 27, 2011. It was appropriated at the July 5, 2011 Town Council meeting. An amended budget was presented and adopted on June 5, 2012. The amended budget, including reserves, reflected a \$2,172,399 (23.86%) increase over the originally adopted budget. This was largely due to increases in revenues and expenses related to the South Church Street Streetscape Enhancement Project. The contract for the project was awarded on November 4, 2010, so the Town had originally expected to make substantial progress in FY2011. By fiscal year end, however, the Town had only been billed for 25% of the total construction contract, so remaining expenses had to be rolled forward into FY2012 as part of its amended budget. Because billings were below budget for FY2011, likewise, state and federal grant reimbursement requests were lower than expected and also had to be moved to FY2012.

Specifically, revenues and financing sources that reflected significant changes were revenue from use of money and property, revenue from the Commonwealth of Virginia, revenue from the federal government, contributions, reserve funds, and capital lease acquisition. Revenue from use of money and property increased by \$171,072 largely due to an amendment for sale of land at 113 North Church Street (\$159,907). This revenue category still surpassed revised budget at fiscal year-end as there was an additional sale of property for \$100,000 to Smithfield Foods for a parcel on Main Street. Sale of equipment was also increased by \$4,150 but ended the year with actual revenues of \$17,220 after the sale of numerous surplus items including three retired police vehicles and two generators. Rental revenues from the Smithfield Center, the Town's conference center, exceeded revised budget of \$135,000 by \$21,615 for total revenues of \$156,616 for the year. This was the first year since the Center's opening in December 2000 that rentals surpassed \$150,000. Revenue from the Commonwealth of Virginia was amended \$67,979 to reflect the state portion of federal formula money allocated to the South Church Street Streetscape Enhancement Project. Actual revenues exceeded budget, however, as the Town also utilized \$69,076 of state matching urban funds towards the project. Federal government revenues were also increased \$950,447 largely due to the South Church Street Project. Federal enhancement grant and federal formula funds were expected to be fully expended in FY2011 but had to be rolled forward to FY2012 as the project start date was delayed until December 2010. The project was not completed by June 30, 2012, so federal urban funds were also not fully used and will again be rolled forward to FY2013. In addition, the final CDBG grant funds available for Phase I MY2 of the Pinewood Heights Project (\$71,000) were not spent until FY2012 with the acquisition of the last owner occupied unit. Contributions for the 2012 budget were increased by \$230,535 (30%) to reflect expected private donations for the South Church Street Project that were originally budgeted for FY2011. This revenue category ended the year significantly under budget by \$414,492, however, as one private contributor elected to withhold his contribution until the South Church Street Project was completed. Restricted reserve funds of \$596,524 were increased to \$938,067 as beautification funds and private donations from prior years were used for the South Church Street Project. Unrestricted reserves were not originally budgeted but were added in the amended budget (\$403,093) in order to complete Phase I MY2 of the Pinewood Heights Project. As with South Church Street, this project was expected to be completed at the end of FY2011 but was carried forward to FY2012. Budgeted capital lease acquisition was eliminated in the amended budget as a generator for the newly renovated police building was purchased instead of leased. Highway road maintenance funds increased by \$35,152 in FY2012 as the state increased its annual grant allocation. Also, State Highway Grant Carryforward funds of \$137,812 were added to the amended budget to address grant funds from FY2011 that were not used until FY2012. These included money set aside for the John Rolfe Turn Lane and the South Church Street

Streetscape Project (sidewalks). The sidewalks were completed in FY2012; however, the John Rolfe Drive turn lane was moved to FY2013. Also, road maintenance reserves increased by \$27,293 to reflect a carry forward of state highway grant funds not used as of June 30, 2010. This reserve would allow the Town to increase highway maintenance in FY2011, but expenditures did not meet budget and thus a carry forward of grant funds will be necessary in FY2012 as well. Most of the departmental operating expenses for FY2011 remained flat or showed slight decreases, but there were some notable increases as well as one significant decrease. The budget for Community Development was increased by \$279,666 (32%). This increase was directly related to the Pinewood Height Redevelopment Project. The Town acquired 9 of the 16 required properties for Phase I MY2 of the project in FY2011. As a result of those acquisitions, one homeowner and 10 renters were relocated with one of the renters becoming a first time homeowner. Also, six units were demolished during the fiscal year. The budget for Parks, Recreation, and Cultural also increased by \$148,160 (28%) to account for donated operating repairs and maintenance to Windsor Castle Park and renovation repairs for the Smithfield Center that were not eligible for capitalization. Budgeted debt service payments were decreased by \$577,164 for expected payments of principal on the Town's \$500,000 line of credit for the Pinewood Heights project and loan funds for property acquisition. As explained above with the budgeted revenue changes, the Town later reclassified the principal for this short term financing as a current liability with only the interest showing as current year expense. Also, the original budget for loan funds was removed and replaced with a general obligation bond between the Town and Isle of Wight County. While there was some payment of interest at the end of FY2011, principal payments will not start until FY2012. Capital outlay for public buildings was increased from \$750,000 to \$1,020,845 to reflect an increase in the cost of purchased property as well as the start of contract work to renovate the buildings acquired in the sale. Also, capital outlay for Community Development increased by \$233,835 (44%) for a projected increase in the cost of property acquisitions in Phase I MY2 of the Pinewood Heights Relocation Project. This project has been a moving target as it is often difficult to project the closing dates with property owners who have agreed to sell. Consequently, the number of acquisitions may deviate from those made in budget projections. For FY2011, capital outlay for the Pinewood Project totaled \$673,589 which was between the original and amended budget projections. The largest decrease of the amended budget was elimination of public work reserves (\$755,000) for the South Church Street Streetscape Enhancement project. Since private contributions were not received as expected in FY2011, the Town did not have excess reserves to set aside for this project. Road maintenance expenses for highway funds were increased by \$60,723 to allow the Town to utilize the carry forward of FY2010 state highway grant fund as well as the increase in grant funding for FY2011.

PROPRIETARY FUND BUDGETARY HIGHLIGHTS

The budget for proprietary funds was revised during FY2012 to reflect a decrease in net loss after contributions of \$23,822 (-14.76%). Budgeted revenues decreased \$12,510 (-0.52 %) largely because of a significant decline in utility consumption due to favorable weather conditions and customer conservation in anticipation of a rate increase on January 1, 2012. Unlike sewer, charges for water were revised to reflect an increase even with the drop in consumption because the blended water rate charged to Isle of Wight County for its two Gatling Pointe connections was raised from \$3.90 to \$5.99 per 1,000 gallons. Connection fees decreased by \$2,730 (6%) as meter installations for new construction fell below original projections. The Town budgeted for 20 residential meter connections in FY2012 but the actual number of installations was nine. Because of 2 commercial installations of large meters, the budget was only slightly affected although actual connection fees still fell below the amended budget. The Town decreased the operating expense budget for proprietary funds by \$65,442 (4%) to reflect cost savings in sewer repairs and maintenance (\$15,815) and water utilities (\$55,000) which were offset by minor increases in other line items. Once the water treatment plant became operational in the fall of 2011, the majority of utility cost was correctly allocated to the plant which fell below budget since it was not on-line for a full year. The budget for non-operating revenues and expenses was increased (\$8,510) to adjust revenues for pro-rata share fees (\$8,000) and insurance reimbursements (\$2,438) that were not originally budgeted against an increase in interest expense (\$20,853) for water as a result of new debt issuance in August 2011. Availability fees are paid at the same time as connection fees and likewise fell below budget when the number of meter installations did not meet projections. Interest income was increased \$6,325 (69%) because cash outlay for the regional consent order was below budget and the rate increases did favorably impact collections for the water fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of FY2012, the Town's investment in capital assets for its governmental and business-type activities totaled \$37,729,462 net of accumulated depreciation. This is an increase of \$3,785,902 from FY2011. The Town's investment in capital assets includes land, buildings, improvements other than buildings, infrastructure, machinery and equipment and construction in progress. The Town owns roads, streetlights, and other highway infrastructure that have been included in this report.

Major capital asset events during the current fiscal year included the following:

- Purchase of four new police vehicles, a police mobile command unit, and a public works vehicle.
- Renovations completed on the Town Manager and Police Department buildings acquired from Isle of Wight County in FY2011.
- Purchase of 5 land parcels to complete Phase I MY2 of the Pinewood Heights Redevelopment Project.
- Completion of a waterline improvement on South Church Street.
- Additional progress billings for 77% of costs for engineering tasks and find and fix costs associated with the sanitary sewer overflow (SSO) consent order.
- Construction completed on the Reverse Osmosis (RO) plant.
- Progress billings of 82% on the South Church Street Streetscape Enhancement Project.

Additional details on the Town's capital assets can be found in Note 6 of the Notes to the Basic Financial Statements.

Debt Administration. Outstanding debt for the Town at fiscal year end 2012 totaled \$5,373,741 of which \$620,680 originated from governmental activities and the remaining \$4,753,061 from business-type activities. New debt in the amount of \$773,266 was secured with the issuance of a general obligation bond through VML VACO in August 2011 to finance a waterline replacement on South Church and completion of the Town's water treatment plant. Total principal paid for the fiscal year totaled \$340,440. The Town's ratio of net bonded debt to total assessed value of taxable property remained the same as in FY2011 at .05%.

Detailed information about the Town's net bonded debt per capita and legal debt margin may be found in Exhibits C-9 and C-11 on pages 72 and 74 of this report. The Town's outstanding debt is significantly below the state's allowable limit of 10% of the total assessed value of taxed real property.

ECONOMIC FACTORS

Several milestones were reached by the Town of Smithfield during fiscal year 2012. Phase I of the Pinewood Heights Redevelopment Project was successfully completed with expectations that Phase II will begin in fiscal year 2013. The reverse osmosis plant was finished and placed in service to address the excessive fluoride levels in the Town's drinking water. Continued progress was made on the sewer consent order including SCADA system upgrades. Finally, the South Church Street Streetscape Enhancement Project was substantially constructed with a projected close out date of January 2013. Revenues remained steady but capital expenses were significant due to the large projects that utilized federal, state, local, and private funds. Water and sewer rates were raised in order to address increased operating costs since the last rate change in April 2005. Salaries were increased by 2% for cost of living after a two year freeze on raises. In an effort to continue providing essential services to its residents and businesses in the most cost efficient manner, the Town began ongoing discussions with Isle of Wight County about possible ways to reduce costs with shared vendors or services. Moving forward into fiscal year 2013, Town officials and staff are committed to an open and accountable government that continuously strives to promote and improve quality of life for all citizens.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Smithfield, Virginia's financial condition as of fiscal year ended 2012. Questions concerning this report or requests for additional information should be directed to the Treasurer, Town of Smithfield, 310 Institute Street, Smithfield, VA 23430.

Town of Smithfield, Virginia

Basic Financial Statements

June 30, 2012

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Statement of Net Assets**June 30, 2012**

Assets	Primary Government		
	Governmental Activities		Business-type Activities
	Total	Activities	
Cash and cash equivalents	\$ 2,750,446	\$ 1,619,699	\$ 4,370,145
Investments	20,152	-	20,152
Receivables - net	235,123	261,470	496,593
Due from other governments	943,663	3,806	947,469
Due from other funds	530,224	177,047	707,271
Deferred charges	2,130	-	2,130
Inventories	-	151,166	151,166
Restricted assets			
Cash and cash equivalents	251,237	2,233,571	2,484,808
Investments	36,378	-	36,378
Bond issuance costs - net	12,870	7,887	20,757
Capital assets			
Nondepreciable	11,872,247	509,899	12,382,146
Depreciable - net	8,918,207	16,429,109	25,347,316
Total assets	\$ 25,572,677	\$ 21,393,654	\$ 46,966,331
Liabilities			
Accounts payable and other current liabilities	\$ 1,754,448	\$ 188,527	\$ 1,942,975
Accrued expenses	25,318	23,043	48,361
Due to other governments	185,276	-	185,276
Due to other funds	4,898	702,372	707,270
Deferred revenue	7,427	-	7,427
Noncurrent liabilities			
Due within one year	59,176	481,713	540,889
Due in more than one year - net	696,186	4,299,049	4,995,235
Total liabilities	2,732,729	5,694,704	8,427,433
Net Assets			
Invested in capital assets - net of related debt	20,169,774	12,256,185	32,425,959
Restricted	-	2,233,571	2,233,571
Unrestricted	2,670,174	1,209,194	3,879,368
Total net assets	22,839,948	15,698,950	38,538,898
Total liabilities and net assets	\$ 25,572,677	\$ 21,393,654	\$ 46,966,331

The accompanying notes are an integral part of these financial statements.

Town of Smithfield, Virginia

Statement of Activities

Year Ended June 30, 2012

Functions/Programs	Program Revenue				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		Primary Government
					Business-Type Activities	Total	
Primary Government							
Governmental activities:							
General government administration	\$ 918,229	\$ 483,943	\$ 375	\$ -	\$ (433,911)	\$ -	\$ (433,911)
Public buildings	388,851	-	-	714,053	325,202	-	325,202
Public safety	2,357,991	55,767	385,504	-	(1,916,720)	-	(1,916,720)
Public works	1,820,850	-	993,200	1,331,301	503,651	-	503,651
Cultural and recreation	740,853	162,969	15,500	-	(562,384)	-	(562,384)
Community development	458,015	-	-	236,041	(221,974)	-	(221,974)
Interest and fiscal charges	34,721	-	-	-	(34,721)	-	(34,721)
Total governmental activities	6,719,510	702,679	1,394,579	2,281,395	(2,340,857)	-	(2,340,857)
Business-type activities:							
Water	1,629,576	1,349,575	-	-	-	(280,001)	(280,001)
Sewer	1,594,505	1,195,237	-	19,686	-	(379,582)	(379,582)
Total business-type activities	3,224,081	2,544,812	-	19,686	-	(659,583)	(659,583)
Total primary government	\$ 9,943,591	\$ 3,247,491	\$ 1,394,579	\$ 2,301,081	(2,340,857)	(659,583)	(3,000,440)
General property taxes					2,602,423	-	2,602,423
Other local taxes					2,152,082	-	2,152,082
Revenue from use of money and property					306,049	14,449	320,498
Loss on disposition of capital assets					(900,500)	-	(900,500)
Miscellaneous					19,269	-	19,269
Insurance reimbursements					34,018	-	34,018
Total general revenue, transfers and miscellaneous	4,213,341	14,449	14,449	4,227,790			
Change in net assets							
Net assets - beginning of year							
Net assets - end of year	\$ 22,839,948	\$ 15,698,950	\$ 38,538,898				

Balance Sheet - Governmental Funds**June 30, 2012**

Assets	General	Special Revenue	Capital Projects	Total
				Governmental Funds
Cash and cash equivalents	\$ 2,443,171	\$ 236,211	\$ 71,064	\$ 2,750,446
Investments	20,152	-	-	20,152
Taxes receivable - net of allowance for uncollectible doubtful accounts of \$154,323	58,294	-	-	58,294
Accounts receivable	176,685	-	-	176,685
Interest receivable	144	-	-	144
Due from other governments	943,663	-	-	943,663
Due from proprietary fund	530,224	-	-	530,224
Due from other governmental funds	258,010	-	8,151	266,161
Restricted assets:				
Cash and cash equivalents	251,237	-	-	251,237
Investments	36,378	-	-	36,378
Total assets and other debits	\$ 4,717,958	\$ 236,211	\$ 79,215	\$ 5,033,384
Liabilities				
Accounts payable	\$ 1,718,987	\$ 35,461	\$ -	\$ 1,754,448
Accrued wages	15,407	9,911	-	25,318
Accrued vacation	33,218	6,044	-	39,262
Due to other governments	185,276	-	-	185,276
Due to proprietary fund	-	4,898	-	4,898
Due to other funds	8,151	186,904	71,107	266,162
Deferred revenue	65,739	-	-	65,739
Total liabilities	2,026,778	243,218	71,107	2,341,103
Fund Balances				
Fund balances				
Committed				
General	620,680	-	-	620,680
Other governmental funds	-	(24,079)	8,108	(15,971)
Assigned				
General	3,780,433	17,072	-	3,797,505
Unassigned				
General	(1,709,933)	-	-	(1,709,933)
Total fund balances	2,691,180	(7,007)	8,108	2,692,281
Total liabilities, fund balances and other credits	\$ 4,717,958	\$ 236,211	\$ 79,215	\$ 5,033,384

The accompanying notes are an integral part of these financial statements.

Balance Sheet - Governmental Funds**June 30, 2012****Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Assets**

Total fund balances - governmental funds	\$ 2,692,281
Amounts reported for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	20,790,454
Governmental funds report the effect of issuance costs when debt is issued. These costs are deferred in the government - wide statement of net assets	(4,913)
Some of the Town's taxes were collected more than forty-five days after year-end and, therefore, are not considered available to pay for expenditures recorded in the current fiscal year	58,312
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
General obligation bonds, net	(600,766)
Compensated absences	<u>(95,420)</u>
	<u>(696,186)</u>
Total net assets - governmental activities	<u>\$ 22,839,948</u>

The accompanying notes are an integral part of these financial statements.

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds**Year Ended June 30, 2012**

	General	Special Revenue	Capital Projects	Total Governmental Funds
Revenue				
General property taxes	\$ 2,601,296	\$ -	\$ -	\$ 2,601,296
Other local taxes	2,152,082	-	-	2,152,082
Licenses, permits and privilege fees	483,943	-	-	483,943
Fines and forfeitures	55,767	-	-	55,767
From use of money and property	468,856	161	-	469,017
Miscellaneous	27,642	-	-	27,642
Intergovernmental:				
Commonwealth of Virginia	339,020	986,577	-	1,325,597
Federal government	1,047,197	-	-	1,047,197
Total revenue	7,175,803	986,738	-	8,162,541
Expenditures				
General government administration	839,491	-	-	839,491
Public safety	2,559,397	-	-	2,559,397
Public buildings	601,990	-	-	601,990
Public works	4,395,150	1,141,281	-	5,536,431
Cultural and recreation	581,972	-	-	581,972
Community development	785,664	-	-	785,664
Debt service:				
Principal retirement	18,227	-	-	18,227
Interest and fiscal charges	34,721	-	-	34,721
Total expenditures	9,816,612	1,141,281	-	10,957,893
Deficiency of revenue over expenditures	(2,640,809)	(154,543)	-	(2,795,352)
Other financing sources				
Contributions	1,295,438	-	-	1,295,438
Insurance proceeds	34,018	-	-	34,018
	1,329,456	-	-	1,329,456
Revenue and other financing sources under expenditures and other financing uses	(1,311,353)	(154,543)	-	(1,465,896)
Fund balances - beginning of year	4,002,533	147,536	8,108	4,158,176
Fund balances - end of year	\$ 2,691,180	\$ (7,007)	\$ 8,108	\$ 2,692,281

The accompanying notes are an integral part of these financial statements.

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds**Year Ended June 30, 2012****Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds	\$ (1,465,896)
--	----------------

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays and contributions exceeded depreciation and dispositions. The details of this difference are as follows:

Depreciation expense	(663,862)
Capital outlay expenditures	4,863,261
Cost of assets disposed	<u>(900,500)</u>
	3,298,899

Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

495

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and similar items.

A summary of items supporting this adjustment is as follows:

Bond issuance costs	15,000
Principal retired on general obligation bonds	<u>18,227</u>
	33,227

Some expenses reported in the statement of activities, do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

The following is a summary of items supporting this adjustment

Change in accrued leave	7,889
Amortization of bond issuance costs	<u>(2,130)</u>
	5,759
Change in net assets of governmental activities	<u>\$ 1,872,484</u>

The accompanying notes are an integral part of these financial statements.

Statement of Net Assets - Proprietary Funds

June 30, 2012

	Assets	Water Fund	Sewer Fund	Total
Current assets				
Cash and cash equivalents	\$ 702,446	\$ 917,253	\$ 1,619,699	
Accounts receivable	142,696	118,774	261,470	
Due from other funds	2,981	174,066	177,047	
Due from other governments	-	3,806	3,806	
Inventories - at cost	92,936	58,230	151,166	
Total current assets	941,059	1,272,129	2,213,188	
Restricted assets				
Cash and cash equivalents	1,521,257	712,314	2,233,571	
Sewer and water expansion fees	1,521,257	712,314	2,233,571	
Total restricted assets	1,521,257	712,314	2,233,571	
Noncurrent Assets				
Bond issuance costs - net	7,887	-	7,887	
Property, plant and equipment -				
net of accumulated depreciation	10,294,544	6,644,464	16,939,008	
Total noncurrent assets	10,302,431	6,644,464	16,946,895	
Total assets	\$ 12,764,747	\$ 8,628,907	\$ 21,393,654	
Liabilities and Net Assets				
Current liabilities				
Accounts payable	\$ 69,574	\$ 118,953	\$ 188,527	
Due to other funds	359,877	342,495	702,372	
Accrued wages	11,617	11,426	23,043	
Accrued compensated absences - current portion	4,288	4,226	8,514	
General obligation bonds - current maturities	311,725	70,550	382,275	
Note payable - current maturities	-	20,686	20,686	
Accrued interest	58,145	12,093	70,238	
Total current liabilities	815,226	580,429	1,395,655	
Noncurrent liabilities				
Compensated absences - net of current portion	8,967	10,220	19,187	
General obligation bonds payable -				
net of unamortized premiums	3,339,513	883,950	4,223,463	
Note payable - net of current maturities	-	56,399	56,399	
Total noncurrent liabilities	3,348,480	950,569	4,299,049	
Total liabilities	4,163,706	1,530,998	5,694,704	
Net Assets				
Invested in capital assets - net of related debt	6,643,306	5,612,879	12,256,185	
Restricted	1,521,257	712,314	2,233,571	
Unrestricted	436,478	772,716	1,209,194	
Total net assets	8,601,041	7,097,909	15,698,950	
Total liabilities and net assets	\$ 12,764,747	\$ 8,628,907	\$ 21,393,654	

The accompanying notes are an integral part of these financial statements.

Statement of Revenue, Expenses and Changes in Fund Net Assets - Proprietary Funds**Year Ended June 30, 2012**

	Water Fund	Sewer Fund	Total
Operating revenue			
Charges for services	\$ 899,406	\$ 642,899	\$ 1,542,305
Miscellaneous	778	313	1,091
	<u>900,184</u>	<u>643,212</u>	<u>1,543,396</u>
Operating expenses			
Personnel services	319,432	285,716	605,148
Supplies and chemicals	148,718	42,862	191,580
Fringe benefits	59,997	57,804	117,801
Utilities	9,017	52,592	61,609
Contractual services	43,075	30,221	73,296
Maintenance	45,911	51,785	97,696
Miscellaneous	28,450	9,692	38,142
Insurance	15,920	13,980	29,900
Truck operations	322,676	13,010	335,686
	<u>993,196</u>	<u>557,662</u>	<u>1,550,858</u>
Operating income (loss) before bad debt and depreciation expense	(93,012)	85,550	(7,462)
Bad debt expense	6,744	4,127	10,871
Depreciation expense	483,925	986,205	1,470,130
Operating loss	<u>(583,681)</u>	<u>(904,782)</u>	<u>(1,488,463)</u>
Nonoperating revenue (expenses)			
Availability fees	42,600	58,300	100,900
Amortization expense	(379)	-	(379)
Compliance fees	-	487,725	487,725
Debt service fees	402,791	-	402,791
Interest and fiscal charges	(142,911)	(46,511)	(189,422)
Interest income	8,139	6,310	14,449
Pro-rate share fees	4,000	4,000	8,000
Regional storm water study	(2,421)	-	(2,421)
State grant funds	-	2,000	2,000
	<u>311,819</u>	<u>511,824</u>	<u>823,643</u>
Loss before contributions	(271,862)	(392,958)	(664,820)
Capital contributions	-	19,686	19,686
Change in net assets	(271,862)	(373,272)	(645,134)
Net assets - beginning of year	<u>8,872,903</u>	<u>7,471,181</u>	<u>16,344,084</u>
Net assets - end of year	<u>\$ 8,601,041</u>	<u>\$ 7,097,909</u>	<u>\$ 15,698,950</u>

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows - Proprietary Funds**Year Ended June 30, 2012**

	Water Fund	Sewer Fund	Total
Cash flows from operating activities			
Received from customers and users	\$ 850,581	\$ 638,447	\$ 1,489,028
Payments to supplier for goods and services	(658,090)	(205,760)	(863,850)
Payment to employees	(378,371)	(343,241)	(721,612)
Net cash from operating activities	(185,880)	89,446	(96,434)
Cash flows from noncapital financing activities			
Operating transfers in - net	(119,689)	11,626	(108,063)
Net cash from noncapital financing activities	(119,689)	11,626	(108,063)
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(1,926,773)	(614,506)	(2,541,279)
Compliance fees	-	487,725	487,725
Debt service	541,288	(70,550)	470,738
Debt service fees	402,791	-	402,791
Note payable payments	-	(19,684)	(19,684)
Interest payments	(135,929)	(47,385)	(183,314)
Regional storm water study	(2,421)	-	(2,421)
Tap fees received	46,600	62,300	108,900
Net cash from capital and related financing activities	(1,074,444)	(202,100)	(1,276,544)
Cash flows from investing activities			
Interest income	8,139	6,310	14,449
Investment proceeds	364,141	-	364,141
Net cash from investing activities	372,280	6,310	378,590
Change in cash and cash equivalents	(1,007,733)	(94,718)	(1,102,451)
Cash and cash equivalents - beginning of year	3,231,436	1,724,285	4,955,721
Cash and cash equivalents - end of year	\$ 2,223,703	\$ 1,629,567	\$ 3,853,270
Reconciliation of operating income to net cash from operating activities			
Operating loss	\$ (583,681)	\$ (904,782)	\$ (1,488,463)
Adjustments to reconcile to net cash from operating activities:			
Bad debt	6,744	4,127	10,871
Depreciation	483,925	986,205	1,470,130
Change in:			
Accounts receivable	(49,603)	(4,765)	(54,368)
Inventories	33,890	12,896	46,786
Accounts payable	(78,213)	(4,514)	(82,727)
Accrued wages and compensated absences	1,058	279	1,337
Net cash from operating activities	\$ (185,880)	\$ 89,446	\$ (96,434)

Supplemental disclosure

Capital contribution related to the James Street Pump Station \$ - \$ 19,686 \$ 19,686

The accompanying notes are an integral part of these financial statements.

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Town of Smithfield, Virginia

Notes to Basic Financial Statements

June 30, 2012

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Town of Smithfield, Virginia

Notes to Financial Statements

June 30, 2012

1. Summary of Significant Accounting Policies

The **Town of Smithfield, Virginia** (Town) is a political subdivision of the Commonwealth of Virginia governed by an elected seven member Town Council. The Town provides a full range of services for its citizens. These services include police and fire protection, recreational activities, and cultural events.

The financial statements of the **Town of Smithfield, Virginia** have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as specified by the Governmental Accounting Standards Board (GASB). The following is a summary of the Town's more significant accounting policies.

A. The Financial Reporting Entity

As defined by U.S. GAAP established by GASB, the financial reporting entity consists of the primary government and its component units, which are legally separate organizations for which the Town Council is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either (a) the ability to impose will by the primary government, or (b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. As such, the Town reports no separate or discretely presented component units in the Town's reporting entity.

B. The Financial Reporting Model

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the Town prepares and presents financial information. State and local governments, including other governmental entities such as the Town, traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 establishes requirements and a new reporting model for the annual financial reports of state and local governments, including other governmental entities. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Government-Wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets - The government-wide statement of net assets is designed to display the financial position of the Town. Governments report all capital assets, including infrastructure, in the government-wide statement of net assets and report depreciation expense – the cost of “using up” capital assets – in the statement of activities. The net assets of a government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

Fund Financial Statements - These statements are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on major funds.

C. Government-Wide and Fund Financial Statements

The accompanying basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model, the focus is on either the Town as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide statement of net assets, the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual basis of accounting and economic resources measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Town generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The Town may defer the use of restricted assets based on a review of the specific transaction.

The government-wide statement of activities reflects both the gross and net cost per functional category that is otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants and contributions. The program revenues must be directly associated with the function or a business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. Administrative overhead charges are allocated to the programs and included in direct expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The governmental fund statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements’ governmental activities column, a reconciliation is presented which explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The Town reports the following major governmental funds:

General Fund - The General Fund is the primary operating fund of the Town. The fund is used to account for all financial transaction and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, licenses, permits, charges for service, and interest income. The General Fund is considered a major fund for government-wide reporting purposes.

Special Revenue Fund - The Special Revenue Fund accounts for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Fund - The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by Proprietary Funds.

Proprietary Fund Types:

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The proprietary funds utilize accrual basis of accounting where the measurement focus is upon determination of net income. Proprietary funds of the Town consist of enterprise funds.

The Town reports the following major enterprise funds:

Water and Sewer Funds - The Water and Sewer Funds account for water and sewer operations that are financed and operated in a manner similar to private business enterprises. All activities necessary to provide such services are accounted for in this fund, including, but no limited to, administration, operation, maintenance, billing, collections, financing and related debt service and capital assets.

D. Intergovernmental Agreements

The following are agreements with other governments that the Town has entered into:

Water Services Agreement:

The Town has an agreement in place with Isle of Wight County to provide water to certain areas of Isle of Wight County with water at the rate of \$3.90 per 1000 gallons. The initial agreement was entered into in August 2010 and has a term of 5 years. The agreement may be renewed for 5 subsequent one year terms thereafter. The blended rate was increased to \$5.99 effective January 1, 2012 as part of the utility rate increases adopted by Town Council. The Town received \$205,113 in 2012 under this agreement.

Sanitary Sewer Public Utility Agreement:

The Town has an agreement in place with Isle of Wight County to provide sewer services to certain areas of Isle of Wight County at the rate of \$1.50 per month for each residential and commercial connection within the area. The initial agreement was entered into in March 2010 and continues for five years. After the initial 5 year period, the amount of the surcharge is subject to review and adjustment, if necessary. The Town received \$9,128 in 2012 under this agreement.

Tourism Agreement:

The Town has a memorandum of understanding with Isle of Wight County to perform certain construction, maintenance, and operations functions of the tourism center located in Smithfield. The tourism center is for the benefit of both Smithfield and Isle of Wight County. The total amount the Town expended related to this memorandum of understanding in 2012 was \$151,286.

Erosion and Sediment Control Plan:

The Town has a memorandum of agreement with Isle of Wight County to develop an erosion and sediment control plan for each zoning permit that it issues. There was no expenditure related to this agreement in FY 2012.

Fats, Oils, and Grease Control:

The Town, along with several other localities, has entered into a Memorandum of agreement with Hampton Roads Sanitation District related to control of the amounts of fats, oils, and grease draining into sanitary sewers from food service establishments. The total amount the Town expended during FY 2012 was nominal and is not currently tracked or reported separately by the Town.

Law Enforcement Mutual Aid Agreement:

The Town has entered into a mutual aid agreement with several other localities to provide police and sheriff support across jurisdictional lines. There was no expenditure related to this agreement in FY 2012.

School Resource Officer:

The Town police department has a memorandum of understanding in place with Isle of Wight Public Schools to provide a School Resource Officer. There are no Town officers involved as School Resource Officers in Isle Of Wight County Schools at this time. This memorandum was in effect in 2002 when the Town received grant money from the state to fund the positions, but once those funds were exhausted the Isle Of Wight Sheriff's office took over full responsibility for the schools.

Emergency Communications Center:

The Town has entered into a memorandum of understanding with other nearby localities to establish an emergency communications center to serve as a central dispatch facility for police, fire and EMS. The total amount the Town expended related to this memorandum of understanding in 2012 was \$91,328.

E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The accompanying fund financial statements of the governmental funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available to finance operations during the year. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures, other than interest on long-term debt, are recorded when the fund liability is incurred. Interest on long-term debt is recorded when due.

In applying the modified accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of those revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the County, which is usually within 45 days; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Real estate and personal property taxes are recorded as revenues and receivables when levied and billed, net of allowances for uncollectible amounts. Property taxes levied but not collected within 45 days after year end are reflected as deferred revenue. Sales taxes, which are collected by the state and subsequently remitted to the Town, are recognized as revenues and receivables upon execution of the sale, which is generally two months preceding receipt by the Town.

License and permits, fines and rents are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded at fair value as earned since they are measurable and available.

The government-wide and the proprietary fund financial statements are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net assets. The proprietary fund-type operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statement of net assets, statement of activities and financial statements of the proprietary fund are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's proprietary fund are charges to customers for services. Operating expenses for the proprietary fund include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, proprietary fund types follow all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor Accounting Principles Board Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989. Under paragraph 7 of GASB Statement No. 20, the Town has elected not to apply FASB pronouncements issued after November 30, 1989.

F. Stewardship, Compliance and Accountability

The provisions of the Code of Virginia shall control the preparation, consideration, adoption and execution of the budget of the Town. The Town Manager through the Budget and Finance Department will exercise appropriate fiscal management as necessary to live within the limits of the adopted budget.

Budgeting Information

The Town utilized the following procedures in establishing the budgetary data reflected in the basic financial statements:

- The Town Manager, in conjunction with the Finance Committee, submits a proposed operating and capital budget to the Town Council prior to June 30 of each year. The operating and capital budget included proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain citizen comments.
- Prior to June 30, the budget is legally enacted through Council vote.
- The Town Manager is authorized to transfer budgeted amount between line items within a department without prior approval from the Town Council.
- Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
- All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- The primary government does not have any fund balances considered to be restricted.

Financial Policies

The Town's Finance Committee has been established by Council to implement and establish various financial policies. The Committee meets on a monthly basis to manage and review financial activities and to insure compliance with the established policies. Members of the Committee include those individuals stipulated by ordinance adopted by Town Council. It is the Town's policy to fund current expenditures with current revenues and the Town's mission is to strive to maintain a diversified and stable revenue stream to protect the government from problematic fluctuations in any single revenue source and provide stability to ongoing services. The Town's unassigned General Fund balance will be maintained to provide the Town with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing.

G. Cash and Cash Equivalents

For purpose of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near the maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, the Town considers investments with original maturities of 90 days or less to be cash equivalents.

H. Investments

All investments of the Town are stated at fair value as of June 30, 2012, in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

I. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for accounts relating solely to property taxes was \$154,323 at June 30, 2012. Customer accounts receivable in the Proprietary Funds are considered to be fully collectible.

J. Inventories

All inventories, which consist of materials and supplies, are valued at cost using the first-in, first-out method. Reported inventories are accounted for under the consumption method (i.e., recorded as expenditures when used) in the proprietary funds. The cost is recorded as an expenditure at the time individual inventory items are consumed. Quantities on hand at year end are recorded at cost on the balance sheet.

K. Capital Assets

Capital outlays are recorded as expenditures of the General and Special Revenue Funds and as assets in the accompanying government-wide financial statements to the extent the Town's capitalization threshold of \$5,000 is met. Depreciation is recorded on capital assets on a government-wide basis. Capital outlays of the proprietary funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Contributed capital assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

The estimated useful lives are as follows:

Art	15 years
Buildings and improvements	10 - 50 years
Equipment, furniture and fixtures	3 - 20 years
Infrastructure	30 - 65 years
Land improvements	5 - 20 years

L. Compensated Absences

Town employees are granted vacation and sick leave based on the employee's length of service and position. They may accumulate, subject to certain limitations, unused vacation and sick leave earned. Upon retirement, termination or death, employees may be compensated for certain amounts at their then current rate of pay. The accumulated annual sick and vacation leave estimated to be payable upon separation are recorded in the accompanying government-wide financial statements.

M. Deferred Revenue

Deferred revenue in the governmental fund types consists of revenues that are measurable but not available for use during the current period. Property taxes receivable at June 30 but not collected within 45 days after that date are reported as deferred revenue in the financial statements.

N. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amounts of debt issued are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Fund Balances

Fund balances are reported according to the following categories:

Nonspendable - Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This classification includes inventories, prepaid amounts, assets held for sale, and long term receivables.

Restricted - Amounts reported when constraints are placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that require formal action of the Town Council either by resolution or ordinance that identifies the specific circumstances under which the resources may be expended.

Assigned - Amounts that are constrained by the Town's expressed intent to use resources for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a finance committee) or by an official to whom authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned - Includes all spendable amounts not contained in other classifications. The general fund is the only fund that would report a positive amount in unassigned fund balance.

Proprietary fund equity is classified the same as in the government-wide statements. When both restricted and unrestricted fund balances are available for use, it is the Town's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

P. Net Assets

Net assets in the government-wide and proprietary financial statements represent the difference between assets and liabilities and are classified as invested in capital assets, net of related debt, restricted, and unrestricted. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments and can be offset by related debt and other payables.

Q. Bond Premiums, Discounts and Issuance Costs

In the accompanying government-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the terms of the related issues on a straight-line basis, which approximates the effective interest method.

In the accompanying fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

R. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

S. Property Taxes

Property taxes are levied as of July 1st for real estate and as of January 1st for personal property, based on the assessed value of the related property as of that date. The Town's legal right to collect property taxes attached each year when the rates are approved and the taxes are assessed. Real estate and personal property taxes are due on December 5th. Amounts not collected within 45 days after year-end are reflected as deferred revenue. An enforceable lien is created on property upon assessment.

T. Credit Risk

The Town's largest taxpayers are Smithfield Foods, Inc., Smithfield Packing, Gwaltney of Smithfield, Inc., including related entities, and Cypress Creek Development Co., LLC. The assessed value of the aforementioned taxpayers' real property comprises approximately 6.56% and 1.5%, respectively, of the Town's tax base.

U. Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenditures and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

V. Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through December 31, 2012, the date the financial statements were available to be issued.

2. Cash and Cash Equivalents and Investments

Deposits

All deposits of the primary government and its discretely presented component unit are held in banks covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (Act) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Under the Act, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. If any member financial institution fails, the entire collateral becomes available to satisfy the claims of the Town. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members (banks and savings and loans) of the pool; therefore, these deposits are considered collateralized and as a result are considered insured. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

Investments

As of June 30, 2012, the primary government had the following investments and maturities:

	Original investment maturity (in years)				
	Fair Value	Less than 1	1-2	\$	2-5
Certificates of deposit	\$ 56,530	\$ -	\$ 56,530	\$ -	

Summary of Deposits

A reconciliation of the carrying value of deposits and investments reported above to amounts reported in the statement of net assets is as follows:

Deposits

Demand deposits - restricted	\$ 2,984,808
Demand deposits - unrestricted	\$ 3,868,120
Cash on hand	\$ 2,025

Investments

Certificates of deposit - maturities greater than three months	\$ 56,530
Total deposits and investments	\$ 6,911,483

Reconciliation to Statement of Net Assets

Cash and cash equivalents - unrestricted	\$ 4,370,145
Cash and cash equivalents - restricted	\$ 2,484,808
Investments - unrestricted	\$ 20,152
Investments - restricted	\$ 36,378
	\$ 6,911,483

Investment Credit Policy

The Town has no investment policy that limits its investment choices other than the limitations of the Code of Virginia. The following investments are allowed under the Code:

1. Direct obligations of the U.S. government, its agencies, and instrumentalities to which the full faith and credit of the U.S. government is pledged, or obligations to the payment of which the full faith and credit of the state is pledged; Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out of state financial institutions;
2. With certain limitations, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements;
3. Municipal obligations, bond or revenue anticipation notes; money judgments; or bond or revenue anticipation notes of public trusts whose beneficiary is a Town, municipality, or school district; and
4. Money market funds regulated by the Securities and Exchange Commission (SEC) in which investments consist of the investments mentioned in points 1, 2, 3 and 4.

Interest Rate Risk

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Town does not have a formal policy for custodial credit risk other than those policies in the Code of Virginia. All investment, evidenced by individual securities, are registered in the name of the Town.

Concentration of Investment Credit Risk

The Town places no limit on the amount it may invest in any one issuer. At June 30, 2012, the Town had no concentration of credit risk.

Restricted Cash

Restricted cash and cash equivalents and investments of the Town's governmental and business type activities at June 30, 2012, are detailed as follows.

	Business-Type Activities			Total Primary Government
	General	Sewer	Water	
Beautification	\$ 68,782	\$ -	\$ -	\$ 68,782
Debt Service	-	-	1,451,244	1,451,244
Special Projects	19,863	-	-	19,863
South Church Street	68,489	-	-	68,489
Escrow	94,103	712,314	70,013	876,430
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 251,237	\$ 712,314	\$ 1,521,257	\$ 2,484,808

3. Receivables and Payables

Amounts due from miscellaneous sources in the governmental funds at June 30, 2012, are detailed as follows:

Incentive allowance	\$ 139,300
Other	20,441
Consumer utility tax	14,518
Consumption tax	2,379
Employees	47
	<u>\$ 176,685</u>

Accounts payable and accrued liabilities in the General Fund at June 30, 2012, are comprised of the following:

	Accounts Payable	Accrued Liabilities	Total
General	\$ 1,718,987	\$ 15,407	\$ 1,734,394
Special revenue	35,461	9,911	45,372
Governmental Funds	\$ 1,754,448	\$ 25,318	\$ 1,779,766

4. Due From/To Other Governments

Details of amounts due from/to other governments are as follows:

Governmental Activities			
	Due From	Due To	
County of Isle of Wight	\$ 350,446	\$ 184,625	
Commonwealth of Virginia	145,582	651	
Federal grants	447,635	-	
	<u>\$ 943,663</u>	<u>\$ 185,276</u>	
Business-type Activities			
	Due From	Due To	
County of Isle of Wight	\$ 3,806	\$ -	

All amounts due from other governments are expected to be collected within one year.

5. Interfund Receivables and Payables

Interfund receivable and payable balances are considered short-term in nature. All balances result from the time-lag between the dates that reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. At June 30, 2012, the balances are as follows:

Fund	Interfund Receivable	Interfund Payable
General	\$ 788,234	\$ 8,151
Special Revenue	-	191,802
Capital Projects	8,151	71,107
Enterprise Funds		
Water	2,981	359,877
Sewer	174,066	342,495
	<u>\$ 973,432</u>	<u>\$ 973,432</u>

6. Capital Assets

The following is a summary of changes in capital assets:

<u>Primary Government</u>	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
Government Activities				
Capital assets not being depreciated				
Land	\$ 7,700,585	\$ 481,844	\$ 107,687	\$ 8,074,742
Construction in progress	1,195,657	2,693,005	91,157	3,797,505
Total capital assets not being depreciated	<u>8,896,242</u>	<u>3,174,849</u>	<u>198,844</u>	<u>11,872,247</u>
Capital assets being depreciated				
Art	107,929	-	-	107,929
Buildings	5,339,367	697,851	800,254	5,236,964
Equipment	873,593	94,651	-	968,244
Infrastructure	4,936,413	462,571	-	5,398,984
Land improvements	1,328,878	222,552	-	1,551,430
Vehicles	1,107,407	303,016	94,333	1,316,090
Total capital assets being depreciated	<u>13,693,587</u>	<u>1,780,641</u>	<u>894,587</u>	<u>14,579,641</u>
Less - accumulated depreciation				
Art	98,099	2,775	-	100,874
Buildings	934,688	187,493	31,757	1,090,424
Equipment	599,360	37,497	-	636,857
Infrastructure	2,124,501	226,407	-	2,350,908
Land improvements	475,696	109,715	-	585,411
Vehicles	863,169	99,975	66,184	896,960
Total accumulated Depreciation	<u>5,095,513</u>	<u>663,862</u>	<u>97,941</u>	<u>5,661,434</u>
Total capital assets being depreciated - net	<u>8,598,074</u>	<u>1,116,779</u>	<u>796,646</u>	<u>8,918,207</u>
Government activities capital assets - net	<u>\$ 17,494,316</u>	<u>\$ 4,291,628</u>	<u>\$ 995,490</u>	<u>\$ 20,790,454</u>

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
Business-type activities				
Capital assets not being depreciated				
Land	\$ 204,481	\$ -	\$ -	\$ 204,481
Construction in progress	4,867,069	179,798	4,741,449	305,418
Total capital assets not being depreciated	5,071,550	179,798	4,741,449	509,899
Capital assets being depreciated				
Buildings	7,827,142	3,757,284	-	11,584,426
Equipment	2,699,244	1,511,062	36,430	4,173,876
Infrastructure	9,192,756	1,162,494	-	10,355,250
Land improvements	17,591	112,644	-	130,235
Vehicles	296,854	14,491	-	311,345
Total capital assets being depreciated	20,033,587	6,557,975	36,430	26,555,132
Less - accumulated depreciation				
Buildings	1,586,923	1,051,741	-	2,638,664
Equipment	1,133,946	121,971	-	1,255,917
Infrastructure	5,809,050	262,951	-	6,072,001
Land improvements	2,971	1,114	-	4,085
Vehicles	123,003	32,353	-	155,356
Total accumulated depreciation	8,655,893	1,470,130	-	10,126,023
Total capital assets being depreciated - net	11,377,694	5,087,845	36,430	16,429,109
Business-type activities capital assets - net	\$ 16,449,244	\$ 5,267,643	\$ 4,777,879	\$ 16,939,008

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities			
General government administration			\$ 92,701
Community development			5,750
Cultural and recreational			159,302
Public buildings			209,809
Public safety			109,319
Public works			86,981
Total depreciation expense - governmental activities			\$ 663,862
Business-type activities			
Water Fund			\$ 483,925
Sewer Fund			986,205
Total depreciation expense - business-type activities			\$ 1,470,130

Construction Commitments

Construction commitments of the Town are as follows at June 30, 2012:

Project	Spent-to-date	Remaining Commitment
Construction Standards Update	\$ 5,395	\$ 10,805
John Rolfe Drive Right Turn Lane	15,274	95,000
Pinewood Heights Relocation	1,784,725	410,000
SSO Consent Order:		
- MOM Program Full Hydraulic Model - Phase 2	32,890	82,110
- Annual Report Development	16,000	9,000
- General Rehabilitation Plan	87,500	87,500
- Manhole Rehabilitation	26,945	4,570
- Private Property I/I Abatement Program	10,875	14,125
- SSES/Task 1 Record Review	11,775	3,925
- SSES/Task 2 Pump station Inspections	34,650	3,850
South Church Street Enhancement	3,776,398	882,000
Total	\$ 5,802,427	\$ 1,602,885

7. Line of Credit

In 2012, the Town renewed an agreement with TowneBank for a line of credit of \$500,000 in order to assist the Town in financing the purchase of properties under the Pinewood Heights Project. Borrowings bear interest at LIBOR or *Wall Street Journal* Prime Rate (depending on which is most advantageous to the Town at the time of borrowing) but at no time will the interest rate be lower than 3.25%. At June 30, 2012, the interest rate being charged to the Town was 3.25% and there was no balance outstanding. The unsecured line expired July 22, 2012. Subsequent to year end the line was extended to August 22, 2013.

8. Long-Term Obligations

The following is a summary of changes in long-term obligations:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Governmental Activities					
General obligation debt	\$ 638,907	\$ -	\$ 18,227	\$ 620,680	\$ 19,914
Compensated absences	155,396	31,374	52,089	134,682	39,262
Total Governmental activities	\$ 794,303	\$ 31,374	\$ 70,316	\$ 755,362	\$ 59,176
Business-type Activities					
General obligation debt	\$ 4,135,000	\$ 773,266	\$ 302,528	\$ 4,605,738	\$ 382,275
Accrued interest	64,130	6,108	-	70,238	70,238
Note payable	96,770	-	19,685	77,085	20,686
Compensated absences	30,412	6,774	9,485	27,701	8,514
Total Business-type Activities	\$ 4,326,312	\$ 786,148	\$ 331,698	\$ 4,780,762	\$ 481,713

A. Details of Long-Term Obligations

Governmental obligations:

In April 2011, the primary government issued Taxable General Obligation Bond of \$638,907 pursuant to a sales contract entered into with the County of Isle of Wight in February 2011. Principal payments will be made in eight annual installments beginning January 2012 with a balloon payment of \$489,553 due no later than December 2019. Interest is calculated at 4% to 5.50% per annum and made in semiannual installments, which began in February 2011. The bonds were issued for the purpose of providing funds for various public improvement projects, including but not limited to, the acquisition of land for public safety and administration offices. At June 30, 2012, the balance of the bond payable was \$620,680 and related interest expense was \$52,805.

Annual requirements of amortize long-term obligations and related interest for governmental activities are as follows:

Fiscal Year <u>Ending June, 30</u>	Governmental Activities	
	Principal	Interest
2013	\$ 19,914	\$ 33,991
2014	19,914	33,194
2015	21,574	32,398
2016	21,574	31,481
2017	23,233	30,564
2018-2019	514,471	43,418
	\$ 620,680	\$ 205,046

Business-type obligations:

In June 2004, the primary government issued General Obligation Refunding Bonds of \$1,745,000 at a premium of \$29,270, with interest calculated at 2.8% to 5% per annum. Principal payments are being made in annual installments (\$80,000 in FY2012) and interest payments are being made in semi-annual installments. The bonds were issued for the purpose of refunding \$1,742,322 of outstanding 1983 Series Water and Sewer Bonds. As a result, \$1,742,322 of the 1983 Series Bonds are considered to be defeased and the liability for these bonds has been removed from the General Obligation Bonds outstanding. The defeasance resulted in a reduction of total debt service payments over the remaining life of the bond of \$66,702. At June 30, 2012, the balance of the bond payable was \$1,150,000.

In July 2005, the Town received proceeds of \$3,570,000 as part of a pooled Series 2005 bond as issued by the Industrial Development Authority of the Town of Stafford and City of Staunton, Virginia. The purpose of the issue is to provide funds for qualifying projects undertaken by or on behalf of political subdivisions or other governmental units of the Commonwealth of Virginia. The Town's intended use is for water improvement systems. The proceeds were placed in a money market fund from which the Town draws down for project expenses. The money market serves as collateral for which interest did not accrue as of June 30, 2012. Repayment of the proceeds began February 2006 (and is to be paid in semi-annual installments through August 2025 with an interest rate ranging between 3.25% and 4.375%. The bond is maintained within the water enterprise fund. At June 30, 2012, the balance of the bond payable was \$2,755,000.

In August, 2011, the primary government issued a General Obligation Bond for \$773,266 maturing in various installments through August, 2016, with interest payable semiannually at 3.145%. At June 30, 2012, the balance of the bond payable was \$700,738.

Annual requirements of amortize long-term obligations and related interest for business-type activities are as follows:

Fiscal Year <u>Ending June, 30</u>	Business-type Activities	
	Principal	Interest
2013	\$ 382,275	\$ 182,345
2014	396,974	168,340
2015	416,823	153,464
2016	431,826	137,798
2017	362,840	121,130
2018-2022	1,600,000	400,894
2023-2026	1,015,000	84,976
	<hr/>	<hr/>
	\$ 4,605,738	\$ 1,248,947

B. Note Payable

The Town has a note payable to the Virginia Revolving Loan Fund for \$300,000, dated May 1, 1997, with interest at 5% and semi-annual installments of \$12,143, including principal and interest. Smithfield Foods, Inc. has agreed to guarantee repayment of funds borrowed from the Virginia Revolving Loan Fund and will, therefore, pay the Town of Smithfield annually a sum equal to the principal and interest payments required by terms of the agreement; these payments are being recognized as a capital contribution.

The following is a summary of the repayment schedule for future years:

	Principal	Interest
2013	\$ 20,686	\$ 3,600
2014	21,733	2,552
2015	22,833	1,452
2016	11,833	296
	<hr/>	<hr/>
	\$ 77,085	\$ 7,900

9. Compensated Absences

Annual Leave Accrual

Each employee earns annual leave on a monthly basis for each month of service. The rate at which annual leave is accrued is dependent upon the length of the employee's service with the Town.

In lieu of taking regular vacation, an employee may request, before April 1, to be paid at his regular hourly rate for up to five days of unused earned leave. The payout is made on the first payroll in July. Leave not taken or time for which the employee has not been compensated may be carried over to the next year. However, no more than 10 days may be carried over.

Sick Leave

Each employee is eligible for eight hours of sick leave per month beginning the first month of employment. Unused sick leave may be accumulated and carried forward to succeeding years. Upon termination, each employee who has completed three years of continuous service is eligible to receive payment for unused sick leave hours at 25% of the employee's hourly rate at the time of termination, not to exceed \$2,500.

At June 30, 2012, accumulated vacation and sick leave for the government funds amounted to \$134,682 of which \$95,419 is long-term.

At June 30, 2012, accumulated vacation and sick leave for the proprietary funds amounted to \$27,701 of which \$19,188 is long-term.

10. Defined Benefit Pension Plan

A. Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost Sharing, Multiple-Employer Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Employees hired before July 1, 2010, and who have service credits before July 1, 2010, are covered under Plan 1. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least ten years of service credit.
- Employees hired or rehired on or after July 1, 2010, and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Participating law enforcement officers and firefighters in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5%; under Plan 2, the COLA cannot exceed 6%. During years of no inflation or deflation, the COLA is 0%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2012 was 8.94% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2012, the Town's annual pension cost of \$246,921 was equal to the Town's required and actual contributions.

Three-Year Trend Information for the Town:

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	\$ 223,640	100%	\$ -
June 30, 2011	247,346	100%	-
June 30, 2012	246,921	100%	-

The FY 2012 required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011, included (a) an investment rate of return of 7.0%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.5% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and, (c) a cost-of-living adjustment of 2.50% per year for Plan 1 members and 2.25% for Plan 2 members. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 93.73% funded. The actuarial accrued liability for benefits was \$6,026,748, and the actuarial value of assets was \$5,648,590 resulting in an unfunded actuarial accrued liability (UAAL) of \$378,158. The covered payroll (annual payroll of active employees covered by the plan) was \$2,278,045, and ratio of the UAAL to the covered payroll was (16.60%).

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

11. Contingent Liabilities

Federal assisted grant programs

The Town participates in a number of federally assisted grant programs. Although the Town has been audited in accordance with the provisions of OMB Circular A-133, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, Town management believes such disallowances, if any, will not be significant.

General Obligation Bonds

General obligation bonds have been recorded in the Enterprise Funds from which repayment is anticipated. The General Fund has a contingent liability for repayment of the aforementioned bonds, should the Enterprise Funds be unable to repay the obligations.

12. Restricted Net Assets

Restricted net assets are limitations imposed by the Town Council through approval of resolutions. Total restricted net assets are as follows:

Business Type Funds

Water Fund - capital projects	\$ 1,521,257
Sewer Fund - capital projects	<u>712,314</u>
	<u>\$ 2,233,571</u>

13. Legal Debt Margin

The Commonwealth of Virginia imposes a legal limit of 10% of assessed valuation of real estate on the amount of general obligation borrowings that may be issued by the Town. At June 30, 2012, the Town's aggregate general obligation indebtedness was \$104,175,033 less than the Commonwealth of Virginia's limit. See Exhibit C-11.

14. Risk Management

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. Property, liability and worker's compensation coverage are provided through the Virginia Municipal League Insurance Programs (VML). The Town reports the majority of its risk management expenditures in the General Fund with some allocation to the Water and Sewer Funds accordingly.

The Town maintains surety coverage for principal officials through the VML. Surety coverage is provided under the general liability coverage with a limit of \$5,000,000. All elected officials, appointed officials, members of all appointed governing bodies; employees and volunteers are covered while acting within the scope of their duties with the Town.

15. Commitments

Pinewood Heights Project

On February 6, 2007, the Smithfield Town Council executed a contract with the Virginia Department of Housing and Community Development (DHCD) for the Pinewood Heights Phase I Redevelopment Project (CDBG #06-21). The purpose of this Community Improvement Grant was to better the living conditions of residents in the Pinewood Heights neighborhood through acquisition, permanent relocation assistance, demolition and clearance. The entire relocation project is to be accomplished in three phases over a probable ten year period. Phase I was divided into two parts, Multi-year 1 (MY1) and Multi-year 2 (MY2), and consisted of 9 owner occupied units, 22 renter occupied units and one vacant lot. All but four units were demolished by fiscal year ended June 30, 2012. The final demolitions were completed in early August 2012. The Town received notification on August 6, 2012, that the DHCD had reviewed and accepted its final audit for fiscal year 2011 and was closing the grant and removing any conditions previously attached to it. Phase I consisted of \$1,400,000 in community development block grant funds and \$1,121,516 in leverage funds from the Town of Smithfield. This leverage total included \$151,830 in Section 8 vouchers and \$750,000 in cash and in-kind contributions from Isle of Wight County.

Upon the successful completion of Phase I of the Pinewood Heights Redevelopment Project, the Smithfield Town Council approved a contract for Phase II on July 2, 2012. Phase II will also be divided into multi-years 1 and 2 as in Phase I. Multi-year 1 will include acquisition, relocation and demolition of six owner occupied units and four tenant occupied units. Funding will be comprised of \$624,720 in community development block grant funds and \$828,755 of Town leverage funding, including \$21,000 in Section 8 vouchers and \$89,800 in relocation contributions from the Southeaster Tidewater Opportunity Project (STOP) organization.

A planning grant for \$25,000 was awarded in FY2011 for preliminary work on Phase II of the Pinewood Heights project. The planning grant work has been completed and closed out as of May 27, 2011. In a release issued from Governor McDonald's office on June 28, 2011, the Town received notice that it has been approved for \$1,000,000 in multi-year funding for Phase II; however, no contract has been signed as of June 30, 2012. Subsequent to year end a contract for Phase II was signed.

South Church Street Phase V

On August 3, 2010, the Smithfield Town Council adopted a resolution deeming it in the best interests of the citizens and Town to complete construction and improvements of South Church Street as approved for Phase V. A contract was executed with Excel Paving Corporation on November 4, 2010, for construction of the proposed improvements. These improvements include paving, curb and gutter, sidewalks, construction of a small parking lot, storm drainage, private entrances, street lighting layout, crosswalks, and aesthetic improvements to include utility relocations, landscaping and pavers. The improvements are in accordance with Town and VDOT standards. Total project cost is estimated at \$4,900,000 with an expected completion date of January 11, 2013. Funding sources include the American Recovery and Reinvestment Act (ARRA) Federal Stimulus Regional Share funds, federal and state grant funds, state urban funds, town matching funds, and private contributions.

16. Subsequent Event

In July 2012, the primary government entered into an agreement with Farmers Bank for a line of credit of \$1,000,000 in order to assist the Town in financing capital projects, such as the South Church Street Project, at the *Wall Street Journal* Prime Rate with a floor of (can go no lower than) 3.25%. The unsecured line expires in July 2013.

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Town of Smithfield, Virginia

Required Supplementary Information
Other than Management's Discussion and Analysis

June 30, 2012

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General Fund
Schedule of Revenue and Expenditures - Budget and Actual

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Revenue from local sources				
General property taxes	\$ 2,637,000	\$ 2,553,000	\$ 2,564,405	\$ 11,405
Penalties	21,325	26,125	26,510	385
Interest	10,975	8,350	10,381	2,031
Total revenue from local sources	2,669,300	2,587,475	2,601,296	13,821
Other local taxes				
Cigarette	140,000	120,000	143,582	23,582
Communications	258,000	238,000	241,600	3,600
Franchise	137,620	137,620	131,046	(6,574)
Meals	970,000	970,000	966,571	(3,429)
Rental	1,300	1,300	1,766	466
Rolling stock	25	25	18	(7)
Sales and use	259,000	275,000	298,844	23,844
Transient	130,000	140,000	139,115	(885)
Utility and consumption	251,000	235,500	229,540	(5,960)
Total other local taxes	2,146,945	2,117,445	2,152,082	34,637
Licenses, permits and privilege fees				
Business privilege licenses	338,800	314,900	331,826	16,926
Miscellaneous permits and licenses	14,985	17,660	19,702	2,042
Vehicle licenses	130,000	130,030	132,415	2,385
Total licenses, permits and privilege fees	483,785	462,590	483,943	21,353
Fines and forfeitures				
	71,000	57,000	55,767	(1,233)
Revenue from use of money and property				
Revenue from use of money	14,435	10,725	9,741	(984)
Revenue from use of property	154,500	329,282	459,115	129,833
Total revenue from use of money and property	168,935	340,007	468,856	128,849
Other revenue				
Miscellaneous	5,615	24,415	741,695	717,280
Total other revenue	5,615	24,415	741,695	717,280
Total revenue	5,545,580	5,588,932	6,503,639	914,707

General Fund
Schedule of Revenue and Expenditures - Budget and Actual

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue from Commonwealth of Virginia				
Noncategorical aid				
Fuel refund	7,000	7,000	7,758	758
Categorical aid				
Department of Environmental Quality	-	4,014	4,014	-
Federal Formula - State Match	-	70,463	70,463	-
Fire program	17,447	18,568	18,568	-
Law enforcement	161,533	161,533	161,532	(1)
Litter Control Grant	3,078	2,609	2,609	-
Police Block Grant	10,000	-	-	-
Traffic Safety Program	-	-	-	-
Urban Funds - State Match	-	-	69,076	69,076
VCA Grant	5,000	5,000	5,000	-
VDEM	-	2,850	-	(2,850)
Total categorical aid	197,058	265,037	331,262	66,225
Total revenue from				
Commonwealth of Virginia	204,058	272,037	339,020	66,983
Revenue from federal government				
FEMA	-	10,682	-	(10,682)
Federal Block Grant	1,250	5,000	3,370	(1,630)
Federal fuel tax refund	8,300	8,300	6,065	(2,235)
Federal Formula	-	281,852	281,852	-
Federal Grant -				
Transportation Enhancement Program	-	379,863	377,908	(1,955)
Pinewood Heights Relocation Grant	-	71,000	71,000	-
Urban Funds	981,545	1,184,845	307,002	(877,843)
Total revenue from federal government	991,095	1,941,542	1,047,197	(894,345)
Other financing sources				
Contributions	765,341	995,876	581,385	(414,491)
Capital Lease Acquisition	50,000	-	-	-
Insurance recoveries	-	16,500	34,018	17,518
Total other financing sources	815,341	1,012,376	615,403	(396,973)
Total General Fund revenues	\$ 7,556,074	\$ 8,814,887	\$ 8,505,259	\$ (309,628)

General Fund
Schedule of Revenue and Expenditures - Budget and Actual

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures				
General government administration				
Town Council/Manager	\$ 480,220	\$ 494,977	\$ 513,472	\$ (18,495)
Treasurer	318,705	339,222	326,019	13,203
Total general government administration	798,925	834,199	839,491	(5,292)
Public Safety				
Police Department	2,231,205	2,430,110	2,282,502	147,608
Fire Department	142,530	113,651	110,567	3,084
Rescue Squad	52,930	116,075	75,000	41,075
E-911 Dispatch	105,000	75,000	91,328	(16,328)
Total Public Safety	2,531,665	2,734,836	2,559,397	175,439
Public Buildings				
General buildings	580,425	597,411	601,990	(4,579)
Public Works				
General maintenance	2,818,927	4,419,899	4,395,150	24,749
Cultural and Recreation				
Clontz Park	4,000	4,000	3,279	721
Community Wellness Initiative	-	45,550	38,442	7,108
Cypress Creek-No Wak Zone	-	324	324	-
Farmers Market	3,000	3,000	3,000	-
Fireworks	2,000	2,000	2,000	-
Fishing Pier	600	600	-	600
Hampton Roads Partnership	1,960	1,960	1,960	-
Isle of Wight Arts League	10,000	10,000	10,000	-
Playgrounds	1,000	3,000	4,029	(1,029)
Regional Library	36,000	36,000	36,000	-
Smithfield Center	420,960	449,187	419,060	30,127
Virginia Healthy Youth Foundation	-	500	420	80
Waterworks Dam	4,000	4,000	1,750	2,250
Windsor Castle Park	100,000	100,000	61,708	38,292
Total Parks, Recreation and Cultural	583,520	660,121	581,972	78,149
Community Development				
APVA Courthouse	5,000	5,000	5,000	-
Chamber of Commerce	6,000	6,000	6,000	-
Christian Outreach	3,000	3,000	3,000	-
Genieve Shelter	9,000	9,000	9,000	-
Pinewood Heights	-	537,965	529,728	8,237
T.R.I.A.D	1,650	1,650	1,650	-
Tourism Bureau	208,112	209,976	151,286	58,690
Western Tidewater Free Clinic	20,000	20,000	20,000	-
Y.M.C.A Project	50,000	50,000	50,000	-
Total Community Development	302,762	842,591	775,664	66,927
Debt service				
Debt retirement	28,255	18,255	18,227	28
Interest and fiscal charges	41,821	34,721	34,721	-
Total debt service	70,076	52,976	52,948	28
Total General Fund expenditures	7,686,300	10,142,033	9,806,612	335,421
Excess of revenue and other financing sources over (under) expenditures and other financing uses	(130,226)	(1,327,146)	(1,301,353)	25,793
Fund balance - beginning of year	3,656,009	2,787,706	4,002,533	1,214,827
Fund balance - end of year	\$ 3,525,783	\$ 1,460,560	\$ 2,701,180	\$ 1,240,620

Special Revenue Fund
Schedule of Revenue and Expenditures - Budget and Actual

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Revenue from use of money	\$ 250	\$ 250	\$ 161	\$ (89)
Revenue from Commonwealth of Virginia				
Street and highway maintenance	951,305	986,457	986,577	120
Total revenue from Commonwealth of Virginia	951,305	986,457	986,577	120
 Total revenue and other financing sources	 951,555	 986,707	 986,738	 31
Expenditures				
Highway maintenance	951,555	1,124,519	1,141,281	(16,762)
 Excess of revenue and other financing sources over (under) expenditures and other financing uses	 -	 (137,812)	 (154,543)	 (16,731)
 Fund balance - beginning of year	 119,235	 (44,969)	 147,536	 192,505
 Fund balance - end of year	 \$ 119,235	 \$ (182,781)	 \$ (7,007)	 \$ 175,774

*Schedule of Funding Progress for Defined Benefit Pension Plan***Year Ended June 30, 2012**

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Over (under) funded		Ratio Funded	Covered Payroll	Over (under) funded Actuarial Liability as a Percentage of Covered Payroll
			Actuarial	Accrued Liability			
June 30, 2011	\$ 5,648,590	\$ 6,026,748	\$ (378,158)	93.73%	\$ 2,278,045		(16.60)%
June 30, 2010	\$ 5,300,600	\$ 5,504,342	\$ (203,742)	96.30%	\$ 2,293,514		(8.88)%
June 30, 2009	\$ 5,275,119	\$ 4,915,933	\$ 359,186	107.31%	\$ 2,297,375		15.63%

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Town of Smithfield, Virginia

Notes to Required Supplementary Information

June 30, 2012

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Town of Smithfield, Virginia

Notes to Required Supplementary Information

June 30, 2012

1. Budgets and Budgetary Accounting

- A. The Town Manager, in conjunction with the Finance Committee, submits a proposed operating and capital budget to the Town Council prior to June 30 of each year. The operating and capital budgets include proposed expenditures and the means of financing them.
- B. Public hearings are conducted to obtain citizen comments.
- C. Prior to June 30, the budget is legally enacted through Council vote.
- D. The Town Manager is authorized to transfer budgeted amounts between line items within a department without prior approval from the Town Council.
- E. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
- F. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- G. The primary government does not have any fund balances considered to be restricted.

2. Legally Adopted Budgets

The general, special revenue, capital projects, and proprietary funds have legally adopted annual budgets.

3. Comparison

The General Fund revenue and other financing sources were over budget by approximately \$500,000 for the fiscal year ended June 30, 2012. This is primarily due to the sale of land and contributions received. The General Fund expenditures were over budget by approximately \$4.2 million for the fiscal year ended June 30, 2012. This is primarily due to the Pinewood Heights Project Heights project Phase I that was completed late and not as quickly as anticipated (Note 15).

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Town of Smithfield, Virginia

Compliance Section

June 30, 2012

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***Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards***

Honorable Mayor and Members of Town Council
Town of Smithfield, Virginia

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the *Town of Smithfield, Virginia* as of and for the year ended June 30, 2012, which collectively comprise the *Town of Smithfield, Virginia's* basic financial statements and have issued our report thereon dated December 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the *Town of Smithfield, Virginia* is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the *Town of Smithfield, Virginia's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Town of Smithfield, Virginia's* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Town of Smithfield, Virginia's* internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ***Town of Smithfield, Virginia's*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of ***Town of Smithfield, Virginia***, in a separate letter dated December 31, 2012.

This report is intended solely for the information and use of the Town Council, ***Town of Smithfield, Virginia's*** management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 31, 2012

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Honorable Mayor and Members of Town Council
Town of Smithfield, Virginia

Compliance

We have audited the compliance of the *Town of Smithfield, Virginia* with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the *Town of Smithfield, Virginia*'s major federal program for the year ended June 30, 2012. The *Town of Smithfield, Virginia*'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the *Town of Smithfield, Virginia*'s management. Our responsibility is to express an opinion on the *Town of Smithfield, Virginia*'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *Town of Smithfield, Virginia*'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *Town of Smithfield, Virginia*'s compliance with those requirements.

In our opinion, the *Town of Smithfield, Virginia* complied, in all material respects, with the requirements referred to above that could have a direct and material effect on to its major federal program identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the *Town of Smithfield, Virginia* is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *Town of Smithfield, Virginia*'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the *Town of Smithfield, Virginia*'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the **Town of Smithfield, Virginia's** Town Council, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 31, 2012

***Report of Independent Auditors on Compliance
with Commonwealth of Virginia Laws,
Regulations, Contracts and Grants***

Honorable Mayor and Members of Town Council
Town of Smithfield, Virginia

We have audited the basic financial statements of the ***Town of Smithfield, Virginia*** as of and for the year ended June 30, 2012, and have issued our report thereon dated December 31, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia laws, regulations, contracts and grants applicable to the ***Town of Smithfield, Virginia*** is the responsibility of management of the ***Town of Smithfield, Virginia***. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the ***Town of Smithfield, Virginia***'s compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts and grants. However, the objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Following is a summary of the Commonwealth of Virginia's laws, regulations, contracts and grants for which we performed tests of compliance:

Code of Virginia

- Budget and Appropriation Laws
- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property Act

State Agency Requirements

- Highway Maintenance Funds

The results of our tests disclosed one instance of noncompliance with the provisions referred to in the preceding paragraph. This instance is discussed in the Schedule of Findings and Questioned Costs as Finding 2012-01. With respect to items not tested, nothing came to our attention that caused us to believe that the *Town of Smithfield, Virginia* had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of Town Council, *Town of Smithfield, Virginia* management and all applicable state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 31, 2012

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/State Pass Through Grantor/ Program Title (Pass-Through Grantor's Number)	Catalogue of Federal Domestic Assistance Number	Total Expenditures
Department of Housing and Urban Development		
Pass-through payments		
Department of Housing and Community Development:		
Comprehensive Community Development	14.228	\$ 71,000
Total Department of Housing and Urban Development		<u>71,000</u>
Department of Transportation		
Pass-through payments		
Department of Transportation		
Highway Safety - Selective Enforcement	20.607	3,370
Highway Planning and Construction	20.205	<u>732,178</u>
Total Department of Transportation		<u>735,548</u>
Total Expenditures of Federal Awards		<u>\$ 806,548</u>

Town of Smithfield, Virginia

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the ***Town of Smithfield, Virginia***. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The ***Town of Smithfield, Virginia***'s reporting entity is defined in Note 1 to the Town's basic financial statements.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. Such expenditures are recognized following the cost principals contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or limited as to reimbursement.

* * * * *

Town of Smithfield, Virginia**Schedule of Findings and Questioned Costs**

Year Ended June 30, 2012

1. Summary of Auditors' Results

- a) An unqualified opinion was issued on the financial statements.
- b) There were no significant deficiencies noted in internal control over financial reporting.
- c) No instances of noncompliance material to the financial statements of the Town, which would be required to be reported in accordance with *Government Auditing Standards*, were noted during the audit.
- d) No significant deficiencies were noted during the audit of internal control over major federal programs.
- e) An unqualified opinion was issued on compliance for the major federal program.
- f) The audit did not disclose any findings required to be reported under Section 510(a) of OMB Circular A-133.
- g) The major program is Highway Planning and Construction (CFDA No. 20.205).
- h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i) The auditee qualified as a low-risk auditee.

2. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Government Auditing Standards.

None

3. Findings and Questioned Costs Related to Federal Programs

None

4. Findings and Questioned Costs Related to Commonwealth of Virginia Laws, Regulations, Contracts and Grants**Finding 2012-1**

Criteria: Chapter 3-5 Conflicts of Interest: The Act requires local government officials to file a statement of economic interests with the clerk of the governing body annually.

Condition: Four forms were not filed timely with the clerk. Two forms were never filed with the clerk.

Town of Smithfield, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Effect: The Town is not in compliance with the Commonwealth of Virginia State and Local Government Conflict of Interests Act.

Recommendation: Local officials submitting the form should review the instructions and complete the form as indicated in order to be in compliance with the State and Local Government Conflict of Interests Act.

Town Response: Management agrees with the auditor's response and will implement proper procedures.

5. Summary Schedule of Prior Year Audit Findings

Prior Year Federal Audit Findings

None

Prior Year State Findings

Finding 2011-1

Criteria: Chapter 3-5 Conflicts of Interest: The Act requires local government officials to file a statement of economic interests with the clerk of the governing body annually.

Condition: Four forms were not filed timely with the clerk. Two forms were never filed with the clerk.

Resolution: For the year ended June 30, 2012, this was a repeat finding.

Town of Smithfield, Virginia

Statistical Section

June 30, 2012

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Town of Smithfield, Virginia

Net Assets by Component - Last Nine Years

Years Ended June 30,	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities									
Invested in capital assets - net of related debt	\$20,169,774	\$16,855,409	\$15,757,552	\$14,036,786	\$ 6,065,558	\$ 5,795,951	\$ 4,127,196	\$ 3,642,371	\$ 3,091,309
Restricted	-	1,526,185	776,333	1,129,937	392,314	428,310	92,645	197,137	
Unrestricted	2,670,174	4,112,055	2,606,432	2,789,245	3,114,587	2,944,331	3,876,804	4,120,097	3,629,107
Total governmental activities net assets	\$22,839,948	\$20,967,464	\$19,890,169	\$17,602,364	\$10,310,082	\$ 9,132,596	\$ 8,432,310	\$ 7,855,113	\$ 6,917,553
 Business-type activities									
Invested in capital assets - net of related debt	\$12,256,185	\$12,153,344	\$ 8,383,785	\$ 7,726,696	\$ 6,052,778	\$ 7,712,175	\$ 6,757,567	\$ 5,530,875	\$ 4,676,207
Restricted	2,233,571	1,440,224	4,399,841	-	4,334,848	4,540,167	4,461,514	761,069	731,691
Unrestricted	1,209,194	2,750,516	2,841,075	6,980,698	3,864,596	(359,379)	(934,846)	2,574,826	2,889,423
Total business-type activities net assets	\$15,698,950	\$16,344,084	\$ 5,624,701	\$14,707,394	\$14,252,222	\$11,892,963	\$10,284,235	\$ 8,866,770	\$ 8,297,321

Years Ended June 30,	2012	2011	2010	2009	2008	2007	2006	2005	2004
Primary government									
Invested in capital assets - net of related debt	\$32,425,959	\$29,008,753	\$24,141,337	\$21,763,482	\$12,118,336	\$13,508,126	\$10,884,763	\$ 9,173,246	\$ 7,767,516
Restricted	2,233,571	1,440,224	5,926,026	776,333	5,464,785	4,932,481	4,889,824	853,714	-
Unrestricted	3,879,368	6,862,571	5,447,507	9,769,943	6,979,183	2,584,952	2,941,958	6,694,923	6,518,530
Total primary government net assets	\$38,538,898	\$37,311,548	\$35,514,870	\$32,309,758	\$24,562,304	\$21,025,559	\$18,716,545	\$16,721,883	\$14,286,046

Note: The Town converted to GASB 34 during fiscal year 2004; therefore, only nine years of financial information is presented here.

Town of Smithfield, Virginia

Change in Net Assets - Last Nine Years

Exhibit C-2

Years Ended June 30,	2012	2011	2010	2009	2008	2007	2006	2005	2004
Expenses									
Governmental activities	\$ 458,015	\$ 561,600	\$ 805,672	\$ 365,494	\$ 565,386	\$ 211,992	\$ 275,340	\$ 245,611	\$ 186,566
Community development	704,853	770,902	563,380	558,077	429,185	478,201	422,779	419,931	339,398
Cultural and recreation	279,296	290,605	317,701	307,658	1,291,524	245,253	413,454	(1)	-
Fire and rescue	918,229	873,583	861,980	1,088,173	885,653	1,117,303	1,147,563	1,336,670	1,395,372
General government	34,721	57,712	13,760	18,451	30,409	14,903	44,954	54,125	-
Interest on long-term debt	36,000	36,000	36,000	36,000	36,000	36,000	33,110	30,295	-
Library	1,383,735	1,188,794	1,269,268	1,669,326	1,322,948	1,282,967	1,001,406	862,238	985,605
Other public works	2,078,695	2,163,081	2,099,283	2,150,522	2,000,866	2,074,231	1,757,567	1,771,210	1,664,896
Police	388,851	186,364	188,126	175,554	149,166	215,529	129,918	94,812	121,762
Public buildings	437,115	438,562	417,498	413,732	394,969	389,051	207,643	188,243	-
Total governmental activities expenses	6,719,510	6,567,203	6,572,668	6,782,987	7,107,106	6,065,430	5,433,734	5,003,124	4,693,599
Business-type activities									
Water	1,629,576	895,899	871,765	925,985	857,058	811,100	753,657	510,648	568,904
Sewer	1,594,505	1,078,458	985,978	1,085,367	974,884	962,260	882,645	715,503	663,986
Total business-type activities expenses	3,224,081	1,974,357	1,857,743	2,011,352	1,831,942	1,773,360	1,636,302	1,226,151	1,232,890
Total primary government expenses	\$ 9,943,591	\$ 8,541,560	\$ 8,430,411	\$ 8,794,339	\$ 8,939,948	\$ 7,838,790	\$ 7,070,036	\$ 6,229,285	\$ 5,926,489
Program revenue									
Governmental activities	\$ 55,767	\$ 68,017	\$ 66,519	\$ 73,486	\$ 71,222	\$ 69,893	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	-	-	-	-	-
Fines and costs	-	-	-	-	-	-	-	-	-
General government administration	-	-	-	-	-	-	-	-	-
Public safety	162,969	132,347	117,343	126,026	122,794	135,238,00	-	-	27,973,00
Cultural and recreation rentals	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	-	-	-	-	-
Other public works	-	-	-	-	-	-	-	-	-
Licenses, permits, and privilege fees	483,943	441,428	493,636	508,544	562,925	627,280	604,756	606,561	-
Operating grants and contributions	1,394,579	1,287,831	1,182,407	1,175,835	2,077,963	1,076,220	792,263	766,421	-
Capital grants and contributions	2,281,395	1,202,583	2,548,708	7,204,294	621,784	40,500,00	-	-	-
Total governmental activities program revenues	4,378,653	3,132,206	4,408,613	9,088,185	3,456,688	1,949,131	1,397,019	1,434,064	632,506
Business-type activities									
Charges for services	1,349,575	1,299,332	1,432,182	1,466,705	135,845	1,435,244	1,167,203	629,580	465,856
Water	1,195,237	1,357,910	1,167,007	912,995	932,841	1,130,904	831,573	548,548	323,062
Sewer	-	-	-	-	-	-	-	-	-
Operating grants and contributions	19,686	18,737	184,334	2,574	265,618	1,353,581	459,636,00	-	-
Capital grants and contributions	2,564,498	2,675,979	2,783,523	2,399,249	3,910,885	3,025,784	1,998,776	1,178,128	788,918
Total primary government program revenues	\$ 6,943,151	\$ 5,808,185	\$ 7,192,136	\$ 11,487,434	\$ 7,367,573	\$ 4,974,915	\$ 3,395,795	\$ 2,612,192	\$ 1,421,124

Town of Smithfield, Virginia

Change in Net Assets - Last Nine Years

Exhibit C-2

	Years Ended June 30,	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities		\$ (2,340,857)	\$ (3,434,997)	\$ (2,164,055)	\$ 2,305,198	\$ (3,650,418)	\$ (4,116,229)	\$ (4,026,715)	\$ (3,569,071)	\$ (3,348,584)
Business-type activities		(659,583)	701,622	925,780	387,897	2,078,943	1,252,424	362,474	(48,023)	(443,972)
Total primary government net expense		\$ (3,000,440)	\$ (2,733,375)	\$ (1,238,275)	\$ 2,693,095	\$ (1,571,475)	\$ (2,863,805)	\$ (3,674,241)	\$ (3,617,094)	\$ (3,792,556)
General revenues and other changes in net assets										
Governmental activities										
Taxes										
Property		\$ 2,602,423	\$ 2,670,808	\$ 2,707,054	\$ 2,717,017	\$ 2,473,865	\$ 2,411,387	\$ 2,203,507	\$ 2,062,764	\$ 1,806,915
Franchise		131,046	143,231	141,404	92,375	98,592	161,843	156,732	147,888	-
Sales		298,844	263,813	263,029	284,054	279,583	274,948	254,386	239,385	-
Other		1,722,192	1,722,320	1,704,845	1,726,986	1,635,892	1,481,890	1,326,898	1,300,513	1,654,705
Unrestricted grants and contributions		-	7,637	7,025	19,405	76,731	33,583	237,625	296,355	-
Loss on disposition of capital assets		(900,500)	(355,905)	(507,496)	-	-	-	-	-	-
Revenues from use of property and money		306,049	46,373	70,247	77,219	152,724	195,123	250,850	208,644	144,037
Fines and forfeitures		-	-	-	-	-	-	69,210	74,887	62,293
Intergovernmental		-	-	-	-	-	-	-	-	-
Commonwealth		-	-	-	-	-	-	-	-	-
Federal		-	-	-	-	-	-	-	-	-
Miscellaneous		19,269	4,796	12,201	-	-	-	-	-	-
Transfers		-	(41,000)	41,000	41,000	41,000	41,000	41,000	41,000	-
Other		34,018	9,219	12,551	29,028	69,517	216,811	73,704	135,195	41,000
Total governmental activities		4,213,341	4,471,292	4,451,860	4,987,084	4,827,904	4,816,585	4,613,912	4,506,631	4,354,378
Business-type activities										
Investment earnings		14,449	17,761	32,527	108,275	321,316	392,176	283,384	70,096	-
Taq fees		-	-	-	-	-	-	79,970	554,100	913,958
Capital contributions		-	-	-	-	-	-	14,637	13,932	131,243
Unrestricted grants and contributions		-	-	-	-	-	-	-	20,344	-
Revenues from use of property and money		-	-	-	-	-	-	-	-	24,057
Pro-rata share fees		-	-	-	-	-	-	-	-	136,000
Intergovernmental: Federal		-	-	-	-	-	-	-	-	22,600
Donated pump stations		-	-	-	-	-	-	-	-	-
Insurance recoveries		-	-	-	-	-	-	-	-	-
Miscellaneous		-	-	-	-	-	-	5,128	-	-
Transfers		-	(41,000)	(41,000)	(41,000)	(41,000)	(41,000)	(41,000)	(41,000)	63,349
Total business-type activities		14,449	17,761	(8,473)	67,275	280,316	397,304	1,054,991	617,472	1,250,207
Total primary government		\$ 4,227,790	\$ 4,530,053	\$ 4,443,387	\$ 5,054,359	\$ 5,108,220	\$ 5,172,889	\$ 5,668,903	\$ 5,124,103	\$ 5,604,585
Change in net assets										
Governmental activities		\$ 1,872,484	\$ 1,077,295	\$ 2,287,805	\$ 7,292,282	\$ 1,177,486	\$ 700,286	\$ 577,197	\$ 937,560	\$ 1,005,794
Business-type activities		(645,134)	719,383	917,307	455,172	2,359,259	1,608,728	1,417,465	569,449	806,235
Total primary government		\$ 1,227,350	\$ 1,796,678	\$ 3,205,112	\$ 7,747,454	\$ 3,536,745	\$ 2,309,014	\$ 1,994,662	\$ 1,507,009	\$ 1,812,029

Note: The Town converted to GASB 34 during fiscal year 2004, therefore, only nine years of financial information is presented here.

Town of Smithfield, Virginia

Fund Balances - Governmental Funds - Last Nine Years

Exhibit C-3

Years Ended June 30,	2012	2011 [1]	2010	2009	2008	2007	2006	2005	2004
General fund									
Reserved	\$ -	\$ 1,174,566	\$ 1,508,460	\$ 1,078,373	\$ 1,031,489	\$ 317,679	\$ 302,692	\$ 297,369	\$ 292,311
Unreserved	-	-	2,552,861	2,417,959	2,616,244	3,019,368	3,984,498	3,937,354	3,325,509
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-
Committed	-	638,907	-	-	-	-	-	-	-
Unassigned	2,691,180	2,189,060	-	-	-	-	-	-	-
Total general fund	2,691,180	4,002,533	4,061,321	3,496,332	3,647,733	3,337,047	4,287,190	4,234,723	3,617,820
All other governmental funds									
Unreserved, reported in:									
Special revenue funds	-	-	9,618	(25,827)	414,963	(127,663)	-	-	-
Capital projects funds	-	-	8,107	8,107	8,107	8,107	2,310	-	187
Debt service funds	-	-	-	-	-	-	-	4,123	-
Restricted, reported in:									
Special revenue funds	-	-	-	145,062	98,448	74,635	(20,340)	36,495	173,137
Capital projects funds	-	-	-	-	-	-	-	-	-
Debt service funds	-	-	-	-	-	-	-	-	-
Committed, reported in:									
Special revenue funds	(7,007)	147,536	-	-	-	-	-	-	-
Capital projects funds	8,108	8,107	-	-	-	-	-	-	-
Debt service funds	-	-	-	-	-	-	-	-	-
Unassigned, reported in:									
Debt service funds	-	-	-	-	-	-	-	-	-
Total all other governmental funds	1,101	155,643	17,725	127,342	521,518	(44,921)	(18,030)	40,618	173,324
Total fund balances	\$ 2,692,281	\$ 4,158,176	\$ 4,079,046	\$ 3,623,674	\$ 4,169,251	\$ 3,292,126	\$ 4,269,160	\$ 4,275,341	\$ 3,791,144

[1] The presentation of fund balance changed in 2011 as a result of the implementation of GASB 54. Prior to 2011, fund balances are reported only as 'reserved' and Effective 2011, fund balances are reported as described in Note 1 of the notes to the financial statements.

Note: The Town converted to GASB 34 during fiscal year 2004, therefore, only nine years of financial information is presented here.

Town of Smithfield, Virginia

General Governmental Expenditures by Function

Exhibit C-4

Last Ten Fiscal Years

Fiscal Year	General Government Administration	Public Safety	Public Buildings and Works [1]	Cultural and Recreation	Community Development and Nondepartmental	Capital Projects	Debt Service Principal	Debt Service Interest and Issuance Costs	Debt Service Total
2012	\$ 839,491	\$ 2,559,397	\$ 6,138,421	\$ 581,972	\$ 785,664	\$ -	\$ 18,227	\$ 34,721	\$ 10,957,893
2011	\$ 773,996	\$ 2,445,825	\$ 3,198,945	\$ 866,696	\$ 1,221,142	\$ -	\$ 6,246	\$ 57,712	\$ 8,570,562
2010	\$ 760,333	\$ 2,409,883	\$ 2,074,822	\$ 1,846,020	\$ 1,560,855	\$ -	\$ 215,373	\$ 13,746	\$ 8,881,032
2009	\$ 1,304,222	\$ 2,421,575	\$ 2,314,279	\$ 7,383,665	\$ 1,077,460	\$ -	\$ 222,188	\$ 15,041	\$ 14,738,430
2008	\$ 1,930,979	\$ 2,517,603	\$ 1,647,828	\$ 463,837	\$ 497,004	\$ -	\$ 302,883	\$ 23,588	\$ 7,383,722
2007	\$ 1,039,257	\$ 2,329,968	\$ 3,145,030	\$ 465,502	\$ 264,793	\$ -	\$ 340,195	\$ 33,486	\$ 7,618,231
2006	\$ 1,055,837	\$ 2,233,388	\$ 1,545,352	\$ 510,968	\$ 326,186	\$ 2,990	\$ 398,088	\$ 44,953	\$ 6,117,762
2005	\$ 940,534	\$ 1,896,000	\$ 491,075	\$ 449,931	\$ 292,906	\$ 1,028,566	\$ 391,879	\$ 57,431	\$ 5,548,322
2004	\$ 1,155,690	\$ 1,664,896	\$ 1,073,395	\$ 339,398	\$ 222,224	\$ 33,972	\$ 374,615	\$ 77,524	\$ 4,941,714
2003	\$ 940,031	\$ 1,781,219	\$ 892,912	\$ 237,873	\$ 95,959	\$ -	\$ 300,000	\$ 33,369	\$ 4,281,363

[1] Includes highway maintenance.

Town of Smithfield, Virginia

General Governmental Revenue by Source

Exhibit C-5

Last Ten Fiscal Years

Fiscal Year	General Property Taxes [1]	Other Local Taxes	License, Permits and Privilege Fees	Fines and Forfeitures	Use of Money and Property	Program	From Commonwealth	From Federal Government	From County	Other	Total
2012	\$ 2,601,296	\$ 2,152,082	\$ 483,943	\$ 55,767	\$ 469,018	\$ -	\$ 1,325,597	\$ 1,047,197	\$ 354,559	\$ 1,002,539	\$ 9,491,998
2011	\$ 2,681,191	\$ 2,129,364	\$ 441,428	\$ 68,017	\$ 172,447	\$ 936	\$ 1,153,683	\$ 1,096,213	\$ 134,871	\$ 771,542	\$ 8,649,692
2010	\$ 2,675,489	\$ 2,109,278	\$ 493,636	\$ 66,519	\$ 182,370	\$ 5,220	\$ 1,166,576	\$ 411,184	\$ 396,312	\$ 1,829,820	\$ 9,336,404
2009	\$ 2,840,115	\$ 2,103,415	\$ 508,544	\$ 73,486	\$ 201,859	\$ 1,386	\$ 1,155,049	\$ 426,937	\$ 275,700	\$ 6,556,853	\$ 14,143,344
2008	\$ 2,450,120	\$ 2,014,067	\$ 562,925	\$ 71,222	\$ 275,518	\$ -	\$ 1,457,021	\$ 637,673	\$ -	\$ 45,850	\$ 7,514,396
2007	\$ 2,281,153	\$ 1,920,994	\$ 627,280	\$ 69,893	\$ 330,363	\$ 5,797	\$ 1,082,662	\$ 25,327	\$ -	\$ 256,728	\$ 6,600,197
2006	\$ 2,232,277	\$ 1,738,016	\$ 599,756	\$ 74,210	\$ 250,850	\$ 1,177	\$ 1,026,515	\$ 3,373	\$ -	\$ 72,527	\$ 5,998,701
2005	\$ 2,116,088	\$ 1,687,786	\$ 598,227	\$ 74,887	\$ 208,644	\$ -	\$ 1,012,629	\$ 50,147	\$ -	\$ 196,350	\$ 5,944,758
2004	\$ 1,798,142	\$ 1,654,705	\$ 517,661	\$ 62,293	\$ 144,037	\$ -	\$ 981,384	\$ 376,553	\$ -	\$ 114,845	\$ 5,649,620
2003	\$ 1,714,212	\$ 1,492,329	\$ 478,453	\$ 49,530	\$ 118,652	\$ 1,488	\$ 1,111,910	\$ 36,486	\$ (4,552)	\$ 158,372	\$ 5,156,880

[1] Includes penalties.

Property Tax Rates**Last Ten Fiscal Years**

Fiscal Year	Real Estate	Personal Property	Boats	Machinery and Tools	Public Utility	
					Real Estate	Personal Property
2012	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2011	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2010	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2009	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2008	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2007	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2006	\$.21/\$100	\$1/\$100 \$.21/\$100[1]	\$.25/\$100	\$.15/\$100	\$.21/\$100	\$1/\$100
2005	\$.21/\$100	\$1/\$100 \$.21/\$100[1]	\$.25/\$100	\$.15/\$100	\$.21/\$100	\$1/\$100
2004	\$.23/\$100	\$1/\$100 \$.23/\$100[1]	\$.25/\$100	\$.15/\$100	\$.23/\$100	\$1/\$100
2003	\$.23/\$100	\$1/\$100 \$.23/\$100[1]	\$.25/\$100	\$.15/\$100	\$.23/\$100	\$1/\$100

[1] Mobile home rate.

Principal Taxpayers - Real Estate and Personal Property

June 30, 2012

Taxpayer	Type of Business	Assessed Valuation Real Estate	% of Total
Smithfield Foods, Inc.	Meat processing	\$ 40,480,400	3.70%
Gwaltney of Smithfield, Ltd.	Meat processing	28,451,800	2.60%
Cypress Creek Development Co., LLC	Land developer	16,391,500	1.50%
Cedar-Smithfield II LLC	Real estate	9,097,600	0.83%
Patrick Henry Hospital	Nursing home/Assisted Living	8,390,000	0.77%
Bradford Mews Associates	Apartment rentals	7,822,200	0.71%
Smithfield Associates LLC	Hotel/Lodging	6,771,500	0.62%
Smithfield Development Corp	Land developer	5,650,100	0.52%
Smithfield Packing Company	Meat processing	4,910,600	0.45%
Morris Creek Landing Apartments	Apartment rentals	4,884,900	0.45%
Smithfield Square Associates	Real estate	4,770,400	0.44%
Church Square LLC	Land developer	4,467,700	0.41%
Club Forest Pine St LLC & Club	Real estate	4,010,500	0.37%
Virginia Smithfield LLC	Real estate	3,810,900	0.35%
Pack Development Company LLC	Restaurant/Hotel	3,685,100	0.34%
Cypress Creek Golf Course, LLC	Land developer	3,634,100	0.33%
Smithfield Ham & Products	Commercial/Industrial	2,868,900	0.26%
Robert J Little, III & Nancy Delk	Commerical/Real Estate	2,541,400	0.23%
KLS Smithfield Development Group LLC	Commercial/Industrial	2,417,200	0.22%
		\$ 165,056,800	15.08%
		Assessed Valuation Personal Property	% of Total
Gwaltney of Smithfield	Meat processing	93,344,218	50.84%
Bay Sand Co Inc	Common sand mining	2,860,391	1.56%
NMHG Financial Services Inc	Equipment financing	2,420,403	1.32%
Smithfield Ham & Products Co.	Wholesale ham and related pork products	1,774,585	0.97%
Smithfield Packing	Meat processing	974,884	0.53%
Farm Fresh #238	Retail grocery	948,565	0.52%
All Virginia Environmental Solutions	Recycling/Trash Pickup	933,278	0.51%
Farmers Service	Hardware/lawn & garden	915,028	0.50%
Charter Communications	Cable/High Speed Internet Service Provider	912,284	0.50%
Bloom # 2754	Retail grocery	872,482	0.48%
Riverside Convalescent Center	Nursing home/Assisted Living	652,258	0.36%
Smithfield Transportation Inc	Trucking/shipping	631,000	0.34%
Paccar Leasing Company	Vehicle and equipment financing	630,000	0.34%
Hampton Inn & Suites	Hotel/Lodging	480,000	0.26%
General Electric Capital Corporation - Gwaltney of Smithfield	Vehicle and equipment financing	470,000	0.26%
Smithfield Station	Hotel/restaurant/retail	321,329	0.18%
		\$ 109,140,705	59.44%

Town of Smithfield, Virginia

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy [1][2]	Collections [1]	Percent of Levy Collected	Total Delinquent Tax Collections	Total Tax Collections to Tax Levy	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes [3]	Percent of Taxes to Tax Levy
2012	\$ 2,707,913	\$ 2,615,584	96.6%	\$ 54,429	\$ 2,670,013	98.6%	\$ 294,531	10.9%
2011	\$ 2,762,912	\$ 2,660,799	96.3%	\$ 91,482	\$ 2,752,281	96.7%	\$ 334,882	12.2%
2010	\$ 2,782,362	\$ 2,682,324	96.4%	\$ 49,374	\$ 2,731,698	98.2%	\$ 333,985	12.0%
2009	\$ 2,696,693	\$ 2,627,544	97.4%	\$ 46,683	\$ 2,674,227	99.2%	\$ 277,914	10.3%
2008	\$ 2,454,163	\$ 2,424,449	98.8%	\$ 23,621	\$ 2,448,070	99.8%	\$ 252,253	10.3%
2007	\$ 2,350,667	\$ 2,313,995	98.4%	\$ 21,482	\$ 2,335,477	99.4%	\$ 208,104	8.9%
2006	\$ 2,144,398	\$ 2,133,140	99.5%	\$ 18,151	\$ 2,151,291	100.3%	\$ 120,144	5.6%
2005	\$ 2,029,857	\$ 2,006,124	98.8%	\$ 27,216	\$ 2,033,340	100.2%	\$ 102,258	5.0%
2004	\$ 1,803,454	\$ 1,760,553	97.6%	\$ 21,504	\$ 1,782,057	98.8%	\$ 124,577	6.9%
2003	\$ 1,642,814	\$ 1,620,563	98.6%	\$ 63,545	\$ 1,684,108	102.5%	\$ 72,636	4.4%

[1] Exclusive of penalties and interest. Tax year 2010 includes vehicle license tax as part of personal property tax levy.

[2] Total tax levy includes the Commonwealth's reimbursement.

[3] Inclusive of penalties. (Note - delinquent taxes = \$261,244, penalty and interest = \$73,638).

**Ratio of Net General Bonded Debt to Assessed
Value and Net Bonded Debt Per Capita**

Last Ten Fiscal Years

Fiscal Year	Population	Assessed Value [1]	Less - Debt Payable from Enterprise Funds			Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value		
			Gross and Net Bonded Debt [2]	Enterprise Funds	Net Bonded Debt		Per Capita		
2012	8,089	\$ 1,291,801,806	\$ 5,303,476	\$ 4,682,823	\$ 620,653	0.05%	\$ 77		
2011	8,089	\$ 1,315,267,714	\$ 4,870,677	\$ 4,231,770	\$ 638,907	0.05%	\$ 79		
2010	6,324	\$ 1,326,157,271	\$ 4,476,754	\$ 4,470,508	\$ 6,246	0.00%	\$ 1		
2009	6,324	\$ 1,310,667,802	\$ 4,924,960	\$ 4,703,341	\$ 221,619	0.02%	\$ 35		
2008	6,324	\$ 1,241,516,731	\$ 5,380,694	\$ 4,936,894	\$ 443,800	0.04%	\$ 70		
2007	6,324	\$ 1,181,657,578	\$ 5,977,454	\$ 5,231,096	\$ 746,358	0.06%	\$ 118		
2006	6,324	\$ 842,305,875	\$ 6,604,383	\$ 5,517,897	\$ 1,086,486	0.13%	\$ 172		
2005	6,324	\$ 807,331,646	\$ 3,515,061	\$ 2,102,369	\$ 1,412,692	0.17%	\$ 223		
2004	6,324	\$ 661,964,530	\$ 4,054,967	\$ 2,264,583	\$ 1,790,384	0.27%	\$ 283		
2003	6,324	\$ 619,878,231	\$ 3,756,763	\$ 2,016,763	\$ 1,740,000	0.28%	\$ 275		

[1] U. S. Census Bureau.

[2] Includes all long-term general obligation debt payable from enterprise revenue.

*Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures*Last Ten Fiscal Years

Fiscal Year	General		Total Debt Service	Total General Expenditures	Ratio of Debt Service to Expenditures
	Principal	Interest			
2012	\$ 34,721	\$ 18,254	\$ 52,975	\$ 10,960,611	0.48%
2011	\$ 6,246	\$ 57,712	\$ 63,958	\$ 8,570,562	0.75%
2010	\$ 215,373	\$ 13,746	\$ 229,119	\$ 8,881,032	2.58%
2009	\$ 222,188	\$ 15,041	\$ 237,229	\$ 14,738,430	1.61%
2008	\$ 302,883	\$ 23,588	\$ 326,471	\$ 7,383,722	4.42%
2007	\$ 340,195	\$ 33,486	\$ 373,681	\$ 7,618,231	4.91%
2006	\$ 398,087	\$ 44,954	\$ 443,041	\$ 6,117,762	7.24%
2005	\$ 391,879	\$ 57,431	\$ 449,310	\$ 5,548,322	8.10%
2004	\$ 374,615	\$ 77,524	\$ 452,139	\$ 4,941,714	9.15%
2003	\$ 300,000	\$ 75,797	\$ 375,797	\$ 4,411,934	8.52%

Computation of Legal Debt Margin

June 30, 2012

Total assessed value of taxed real property	\$ 1,094,483,700
Debt limit - 10% of total assessed value	109,448,370
Amount of debt applicable to debt limit - gross debt	<u>4,303,476</u>
Legal debt margin	<u>\$ 105,144,894</u>

Full-Time Equivalent City Government Employees by Function/Program**Last Eight Fiscal Years**

Function/Program	Full-time Equivalent Employees as of June 30,							
	2012	2011	2010	2009	2008	2007	2006	2005
General government								
Management services	2.80	2.80	3.11	3.43	3.43	3.33	3.18	2.75
Finance	4.71	4.12	4.79	4.60	4.00	4.55	3.40	3.20
Planning	2.35	2.35	2.35	2.50	2.00	2.41	2.50	2.60
Building	0.90	0.88	0.85	0.98	0.98	0.50	-	-
Other	0.80	0.80	0.80	0.80	1.00	1.00	1.00	1.00
Police								
Officers	20.80	19.31	21.78	21.00	20.16	20.51	21.00	21.00
Civilians	2.46	3.82	4.35	3.82	3.80	4.80	4.80	4.50
Other public works								
Engineering	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.50
Other	7.57	6.75	5.97	4.90	5.50	4.76	5.61	5.38
Cultural and recreation	4.92	5.08	5.26	4.23	4.23	5.28	5.91	4.87
Water	6.08	5.55	5.83	5.35	4.70	4.71	4.71	4.71
Wastewater	5.96	5.95	6.13	6.85	5.90	5.92	5.92	3.91
	60.15	58.21	62.02	59.26	56.50	58.57	58.83	54.42

Note: Full-time equivalent statistics were maintained beginning in 2005, therefore, only eight years of statistical information is available for presentation here.

*Operating Indicators by Function/Program***Last Eight Fiscal Years**

Function/Program	Fiscal Year							
	2012	2011	2010	2009	2008	2007	2006	2005
Police								
Physical arrests	199	271	362	387	361	354	344	417
Parking violations	21	20	99	48	37	54	66	65
Traffic violations	1,041	1,387	1,817	1,991	1,503	2,052	1,799	1,804
Fire								
Emergency responses	659	524	578	650	581	425	426	366
Refuse collection								
Refuse collected (tons per day) [1]	32.57	33.69	9.45	9.70	9.96	9.05	9.09	8.82
Other public works								
Street resurfacing (miles) [1]	1.23	140.00	1.82	6.25	3.50	-	2.60	-
Potholes repaired [1]	83	87	79	48	32	26	31	36
Water								
New connections	10	17	31	41	41	95	110	111
Water mains breaks	35	4	11	22	26	24	25	25
Average daily consumption (thousands of gallons)	822.07	810.72	824.47	806.24	880.22	810.73	820.65	771.29
Peak daily consumption (thousands of gallons)	1,821.23	1,879.39	2,159.77	1,734.77	1,819.71	1,482.17	55.07	N/A

[1] Outsourced to subcontractors.

N/A Information not available.

Note: Operating indicator statistics were maintained beginning in 2005, therefore, only eight years of statistical information is available for presentation here.

Capital Asset Statistics by Function/Program

Function/Program	Fiscal Year							
	2012	2011	2010	2009	2008	2007	2006	2005
Police								
Stations	1	1	1	1	1	1	1	1
Patrol units	22	21	22	21	22	21	21	21
Fire stations	1	1	1	1	1	1	1	1
Other public works								
Street (miles)	47.11	47.11	47.11	47.11	47.11	43.33	41.92	41.92
Streetlights	704	687	686	684	667	655	651	603
Traffic signals	7	7	7	7	7	7	7	5
Park and recreation								
Acreage *	203.296	201.901	201.901	201.901	5.491	5.491	5.491	5.491
Playgrounds	2	2	2	2	2	2	2	2
Conference centers	1	1	1	1	1	1	1	1
Water								
Water mains (miles)	38.25	38.25	38.25	38.25	38.25	38.25	38.25	38.25
Storage capacity (thousands of gallons)	1,120	1,120	1,120	625	625	625	625	625
Wastewater								
Sanitary sewers (miles)	38.25	38.25	38.25	38.25	38.25	38.25	38.25	38.25

*Acreage increase in 2009 resulted from the purchase of Windsor Castle Estate to be used as a public park. The estate included 196.41 acres.

Note: Capital asset statistics were maintained beginning in 2005, therefore, only eight years of statistical information is available for presentation here.

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